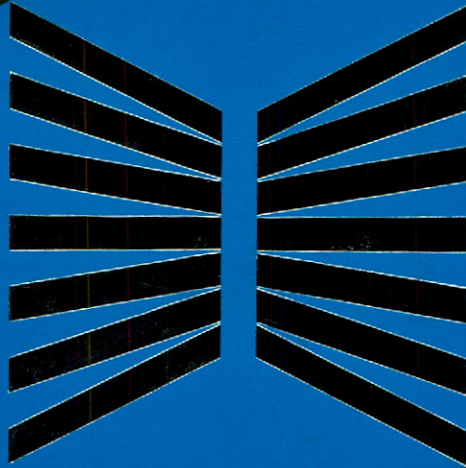




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The Annual Meeting of Shareholders will be held on May 4, 1989 at 14:30 at Le Centre Sheraton
 1201 René-Lévesque Boulevard West
 Montréal, Québec.

Si vous désirez recevoir le rapport annuel en français, veuillez communiquer avec

Le Secrétaire
 Imasco Limitée
 600, boulevard de Maisonneuve ouest
 20^e étage
 Montréal, Canada
 H3A 3K7



Financial Highlights

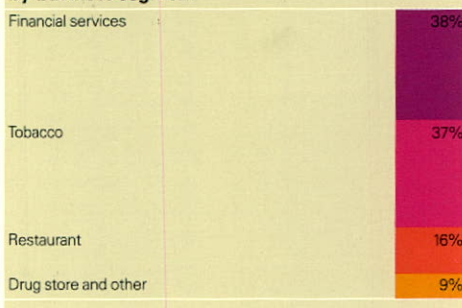
Imasco Limited

	Twelve months ended December 31 ¹			% change	% change
	1988	1987	1986	1987-88	1986-87
Millions of dollars, except "per common share" amounts					
System-wide sales ²	13,836	12,951	11,132	7	16
Revenues	6,001	5,924	5,597	1	6
Operating earnings	637	578	456	10	27
Earnings before extraordinary items	314	283	226	11	25
Earnings per common share					
before extraordinary items	\$2.51	\$2.24	\$1.92	12	17
Dividends per common share	\$1.04	\$0.96	\$0.84	8	14
Total assets	5,310	5,657	5,506	(6)	3
Shareholders' equity	2,261	2,254	2,137	-	5

Operating Divisions

	Twelve months ended December 31 ¹			% change	% change
	1988	1987	1986	1987-88	1986-87
Millions of dollars					
System-wide sales ²					
Imperial Tobacco	2,018	1,926	1,755	5	10
Imasco USA	4,059	4,059	3,722	-	9
Shoppers Drug Mart	2,356	2,073	1,775	14	17
Peoples Drug Stores	1,842	1,850	1,922	-	(4)
The UCS Group	257	235	206	9	14
Imasco Enterprises Inc.	3,457	2,867	1,809	21	58
Operating earnings					
Imperial Tobacco	308	279	208	10	34
Imasco USA	130	137	129	(5)	6
Shoppers Drug Mart	57	51	49	11	5
Peoples Drug Stores	(8)	(23)	-	-	-
The UCS Group	8	7	7	13	1
Equity in net earnings of					
Imasco Enterprises Inc.	142	127	63	12	101

Sources of 1988 operating earnings by business segment³



¹ Effective April 1, 1987 the Corporation changed its fiscal year end from March 31 to December 31. Financial highlights for 1987 and 1986 are presented on a 12-month basis ended December 31 for comparative purposes and are unaudited. Comparative amounts have been restated where appropriate.

² System-wide sales include the sales of licensed restaurants and associate drug stores, and the revenues of Imasco Enterprises Inc. Intersegmental transactions have been eliminated from total system-wide sales. System-wide sales amounts are unaudited.

³ Includes CT Financial Services Inc.'s pre-tax earnings less related fair value and goodwill amortization.

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Hardee's

Imasco Limited is a major Canadian consumer products and services corporation with operations in Canada and the United States. Formed in 1970 to diversify the interests of Imperial Tobacco, Imasco has since acquired and further developed other leading businesses in the consumer products and services sector. Each of the acquired businesses was selected on the basis of its quality, its position in the market and its potential for growth. The corporate management structure is highly decentralized. Each of the operating divisions is encouraged to foster growth and thereby ensure that overall corporate objectives are met.

In 1986 Imasco entered the financial services sector by acquiring a 98% interest in Canada Trustco Mortgage Company, Canada's largest trust company. On a pre-tax basis the financial services sector is now the largest contributor to Imasco's operating earnings.

Imasco maintains an unqualified commitment to growth in earnings and shareholder value. Since 1970 Imasco's compound rate of growth in earnings before extraordinary items is 18% and the annual pre-tax return to shareholders has been approximately 20%.



Imperial Tobacco was established in 1912 to manufacture and distribute a full range of quality tobacco products for the Canadian market. Its cigarette trademarks include the two largest selling brand families in Canada, Player's and du Maurier.

For many years Imperial Tobacco has been steadily increasing its share of the Canadian cigarette market and in 1988 the company's market share reached 56.2%. Market success has been based on a thorough market research programme and an absolute dedication to product quality.

Even though total cigarette consumption in Canada has been declining for several years, Imperial Tobacco's contribution to Imasco's earnings has continued to grow. This achievement is due not only to Imperial's market leadership but also to its long established programme to remain the low cost producer in Canada.



Hardee's Food Systems, Imasco's U.S. fast service restaurant operation, became a wholly owned subsidiary in 1981. Hardee's, which is the principal operating subsidiary of Imasco USA, has consistently achieved strong year over year growth in earnings since the acquisition. By year end, the Hardee's system consisted of more than 3,000 restaurants.

Based on system-wide sales, average unit sales volume and customer traffic, Hardee's currently ranks third in the fast service hamburger segment of the U.S. restaurant industry. Well executed plans that respond to consumer needs and expectations are fundamental to the success of Hardee's. Each and every aspect of the company's operations is constantly under review to ensure that Hardee's succeeds in its mission of being not the biggest but certainly the best fast food chain in America.

Imasco USA also owns Fast Food Merchandisers which supplies food and paper products to the Hardee's system and independent food service outlets.



The Imasco Drug Retailing Group oversees the operations of Shoppers Drug Mart/Pharmaprix in Canada and Peoples Drug Stores in the United States.

Shoppers Drug Mart became part of Imasco in 1978 and has steadily expanded its presence in the retail drug store sector. With more than 600 stores, the company is now the leading drug store group in Canada by a wide margin. The company's positioning statement, "Everything you want in a drug-store" reflects the Shoppers Drug Mart commitment to its customers and is the cornerstone of its success.

Peoples Drug Stores was acquired in 1984. The company's market appeal is based on consumer trust in Peoples' pharmacists, convenient locations and the wide range of products offered. Peoples' performance deteriorated between 1985 and 1987. In mid-1987 a comprehensive three-year plan was initiated to restore profitability. In early 1989 further steps were taken to reorganize the chain and accelerate the profitability plan. The reorganized chain, which consists of just over 500 stores, is more concentrated and well positioned in its strongest markets.



Imasco Enterprises, through its subsidiary Imasco Financial Corporation, currently holds approximately 98% of the common shares of CT Financial Services Inc., the parent company of Canada Trustco Mortgage Company.

Canada Trust is a market leader in Canadian retail banking with total assets under administration of \$67.4 billion. The company provides a complete range of savings and loan services through a network of 317 financial services branches across Canada. An additional 22 offices, located in major centres, offer personal and pension trust services. Canada Trust is also the country's second largest real estate broker with 4,176 agents and 193 offices from coast to coast.

Other subsidiaries of CT Financial Services include Truscan Realty, which holds and manages real estate investments, and CT Investment Counsel, which provides investment management and counselling services.



The UCS Group is a leading specialty retailer operating 525 outlets across Canada.

Over the years, The UCS Group has adapted its store concepts and product mix to meet changing consumer needs. The company now serves a broad spectrum of consumers, offering tobacco products, confectionery, snack foods, reading materials, souvenirs, gifts, novelties and greeting cards. Stores range in size from 100 to 1,300 square feet and operate in high traffic areas such as shopping malls, commercial centres, airports and hotels.

Imasco's mission from its creation in 1970 has been to build shareholder value by diversifying the Corporation's activities and sources of earnings. By mid-1986, Imasco had succeeded in establishing a strong presence in retail drug stores, fast service restaurants and financial services to go along with its original activity in tobacco products. Each of Imasco's principal businesses reflects the Corporation's overall strategy of concentrating on market leadership in the consumer products and services sector.

The acquisition of Canada Trust in 1986 has been a turning point for Imasco. Canada Trust gave Imasco the strong fourth leg and earnings diversification we had been seeking since our entry into the fast service restaurant sector in 1981. The acquisition of Canada Trust was also the catalyst for an in depth review of Imasco's Long Range Plan.

In February 1988, the Board of Directors approved extensive changes to the plan. The key variation in our current statement of long range objectives is that gains in shareholder value in the near and medium term will be achieved primarily through the earnings growth of existing holdings. The change implies that, within this time frame, the role of acquisitions will be to contribute to the growth of these holdings rather than to further diversify our earnings base.

A second high priority for Imasco, following the acquisition of Canada Trust, is the improvement of our debt to total capital ratio. The plan envisages a progressive reduction of this ratio over time.

To achieve these objectives Imasco's management has increasingly focussed on achieving excellence in all aspects of its operations, ensuring that existing assets are productively employed and that each operating company's cash generating potential is enhanced. These priorities are reflected in the actions, performance and achievements of Imasco in 1988.

Operating company overview

Each operating company improved its performance over the preceding year and contributed to the advancement of Imasco's long range objectives. Operating earnings in the 12 months ended December 31, 1988 increased 10% to \$636.7 million.

If the contribution of our financial services holdings were stated on a pre-tax basis, and after deducting amortization of fair value and goodwill, rather than by the equity method, Imasco's total operating earnings would have been \$829 million in 1988. On this basis, the percentage contribution of each of Imasco's principal lines of business to total operating earnings in 1988 was: financial services 38%, tobacco 37%, restaurants 16% and retail drug stores 6%. The balance of 3% was provided by The UCS Group and the remaining Genstar operations.

Brief comments on the results and developments in each division follow. More detailed information is set out in other sections of the report.

Imperial Tobacco

Imperial recorded another year of outstanding achievement in 1988. Its market share of manufactured cigarettes increased by 1.8 share points to 56.2%. This gain in market share fully compensated for the decline in industry volume. Consequently, Imperial's shipments in 1988 were fractionally higher than they were in 1987. Market share and volume gains were also recorded by Imperial's fine cut tobacco division.

Imperial Tobacco's financial performance in 1988 also reached record levels. Total revenues increased by 5% to \$2.0 billion and operating earnings increased by 10% to \$308.0 million.

Other significant developments in Imperial Tobacco's year included a further initiative to support Imperial's long term commitment to productivity growth. A plan to eliminate 59 positions at Imperial's head office was introduced and implemented in a manner which fully took into account Imperial's strong concern for the welfare of its employees.

Imperial also had to contend with The Tobacco Products Control Act which was passed in 1988 and came into force January 1, 1989. This legislation provides for the elimination of all advertising of tobacco products by 1993. Imasco and Imperial view this law as an unconstitutional limitation on the right of a corporation to communicate with its customers. Consequently, Imperial is contesting the law's constitutionality before the courts. In the meantime Imperial is complying with all of the law's requirements.

Hardee's Food Systems

Hardee's is the principal operating subsidiary of Imasco USA and this important asset continues to be managed for strong year over year growth. At year end, the Hardee's system consisted of 3,110 restaurants of which 1,038 were company-owned and 2,072 were operated by licensees. Imasco USA also operated nine Burger Chef and 32 Grisanti's restaurants.

In 1987 Hardee's became the third largest fast service hamburger restaurant group in the U.S. measured by system-wide sales, average unit sales volume and customer traffic. Hardee's strengthened its industry position through 1988 by registering further gains in average unit volume and increasing its overall market share. At the base of these outstanding achievements is Hardee's strong emphasis on quick responses to consumer expectations with respect to menu items and service levels.

Hardee's also contributed to Imasco's overall objective of increased cash generation from existing assets by implementing two sale and leaseback transactions involving 380 company-owned restaurant properties. The two transactions raised \$321 million. Some of these funds were used to finance Hardee's 1988 expansion and the balance was applied against debt. Ultimately the total amount raised is expected to be deployed in the expansion of the Hardee's system.

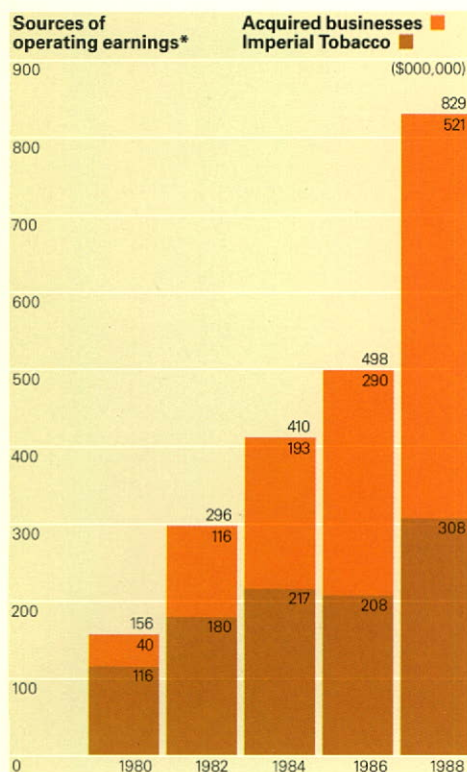
Imasco USA's 1988 operating earnings decreased 5% to \$130.3 million. However, after adjusting for the effect of the sale and leaseback transactions and for changes in the value of the Canadian dollar relative to the US dollar, Imasco USA's 1988 operating earnings increased by 18%.

Imasco USA made a second strategic decision in 1988 that supports Imasco's overall objective of creating shareholder value by concentrating on core businesses. Imasco USA has decided to sell its Grisanti's restaurants and to concentrate resources on the further development of Hardee's.

Shoppers Drug Mart

Shoppers is the leading drug store group in Canada. Based on Statistics Canada figures, Shoppers increased its market share by 1%





*Includes CT Financial Services Inc. pre-tax earnings less related fair value and goodwill amortization.

in 1988 and now enjoys a national market share of approximately 32%. Shoppers' success is, in large part, due to the Associate concept which features a community pharmacist operating his or her own store with the support and services of a dynamic consumer oriented national corporation.

Shoppers' results in 1988 were system-wide sales of \$2.4 billion, an increase of 14%, revenues of \$194.9 million, up 14% and an 11% increase in operating earnings to \$57.1 million. The number of stores in the group increased to 613 from 586. Average sales per square foot of selling space, a key measure of productivity, increased to \$728 and are among the highest in the North American retail drug store sector.

Shoppers also took a number of steps to improve overall return on assets. The stores trading under the name Super X have now been converted to Shoppers Drug Mart stores. Strong sales increases followed these conversions, a result that will contribute to growth in earnings in 1989. Six of Shoppers' seven Pharmaprix Carnaval stores in Québec, an experiment in deep discounting, were disposed of and the seventh was converted to a regular Pharmaprix outlet. Shoppers will also be converting its Howie's deep discount stores to Shoppers Drug Mart units in 1989.

Peoples Drug Stores

Imasco also has a significant presence in the U.S. retail drug store sector dating from our acquisition of Peoples in 1984.

Peoples' performance deteriorated from an operating profit of \$53 million in calendar 1985 to a \$23 million operating loss in the 12 months ended December 31, 1987. Our response to this deterioration was to establish the Imasco Drug Retailing Group in early 1987 under the leadership of David Bloom. In mid-1987 measures to restore profitability were introduced. Our goal was to return Peoples to an acceptable level of profitability over a three-year period.

The effects of these measures have been carefully monitored and significant progress has been made. Peoples' operating loss in 1988 was reduced to \$8.3 million or one third of what it was in 1987. A large part of this improvement is the result of Peoples' operating profit of \$8.3 million in the fourth

quarter of 1988. This contrasts with an operating profit of \$3.4 million in the last three months of 1987.

However, in order to attain our overall goals, more rapid progress is required. Consequently, Imasco's management and Board of Directors, after full consultation with Peoples' management, decided Peoples should concentrate on improving the profitability of approximately 500 stores in its core markets of District of Columbia, Maryland, Virginia, West Virginia and Pennsylvania.

To this end, we announced in mid-January 1989 that 85 Peoples stores in Georgia and Alabama had been sold for approximately \$60 million and that 240 stores, principally in Indiana and Ohio, were also for sale.

A reorganization of this scale presents extraordinary challenges and stresses for Peoples' employees. It must be implemented with sensitivity to the interests of affected employees and their communities. We are grateful for the care, understanding and support Peoples' leaders are demonstrating in this reorganization. Together with Peoples' management, we are continuing to carefully monitor the progress of the remaining Peoples stores.

There are substantial costs associated with this reorganization. These have been provided for in a one-time special charge of \$110 million against Imasco's fourth quarter 1988 earnings. This charge also provides for the costs associated with the sale of the 32 restaurants in Imasco USA's Grisanti division. The proceeds from all of these asset sales will be applied to debt reduction.

The UCS Group

The UCS Group offers fast, convenient and courteous service to customers for tobacco, confectionery, reading materials, souvenirs and gifts from 525 highly visible locations throughout Canada. Sales of \$256.6 million and operating earnings of \$7.6 million reached record levels in 1988 and reflect the strong progress of the company over the past five years.

Canada Trust

Included in the operating earnings of Imasco is the Corporation's equity in the net earnings of Imasco Enterprises which are, for the

most part, derived from the operating results of Canada Trust.

In 1988, Canada Trust's earnings increased by 15% to \$232.0 million. Earnings per \$100 of assets were \$0.85. Return on common shareholders' equity was 19%. Total assets under administration, which include corporate assets of \$29.2 billion, increased to \$67.4 billion. As a result of Canada Trust's performance, Imasco's equity in the net earnings of Imasco Enterprises increased to \$142.1 million in 1988 from \$126.5 million in 1987.

Imasco's relationship with Canada Trust has developed harmoniously and satisfactorily within the letter and spirit of the undertakings Imasco gave to the Minister of Finance at the time of the acquisition in April 1986. These undertakings require that Canada Trust continue to be governed by its own independent Board of Directors and that the number of persons on the Canada Trust Board related to Imasco not exceed 20% of the total. Currently 14% of Canada Trust's directors are related to Imasco.

Our undertakings also contain a commitment not to enter into any prohibited related party transactions with Canada Trust and none have been entered into. Canada Trust has given the Minister of Finance a parallel set of undertakings and the auditors of Canada Trust and Imasco separately monitor and report on compliance with these undertakings to the Minister.

The undertakings are to continue in force until superseded by the rules of general application contained in a revised Trust and Loan Companies Act. Progress on this revision has been slow. The Federal Government has gone from a Green Paper in 1984 to a Blue Paper in 1986 and a draft Bill in 1987. Imasco has been an active participant in the consultations and Parliamentary studies that accompanied each stage. Our objective is to ensure that Canada Trust has maximum flexibility to pursue the same business opportunities that deregulation offers its domestic and foreign competitors. We now expect that the Federal Government will present a revised Trust and Loan Companies Act to Parliament in mid-1989 and that this legislation will carry forward the Government's previous proposal that 35% of the voting shares of entities like Canada Trust must be publicly traded and widely held.

Imasco Centre

We generally refer to the head office function of Imasco as the Imasco Centre. The Imasco Centre contributes to the realization of the Corporation's long range objectives in two principal ways. It is a catalyst and communications centre, working with the chief executive officer of each operating company to ensure that corporate objectives are met. It also acts directly on objectives that can only be achieved through action at the Centre. Good illustrations of the second role are the allocation of capital and our debt management programme.

In the course of 1988 the Imasco Centre initiated a series of steps designed to reduce long term debt and improve the balance between floating and fixed rate debt. Long term debt was reduced by \$305 million to \$2.1 billion. Our long term debt to total capital ratio improved from 51.8% at year end 1987 to 48.3% at year end 1988. Floating rate debt as a percentage of total debt was reduced from 75% at year end 1987 to 46% at December 31, 1988.

The Imasco Centre also initiated a number of changes to Imasco's management system in order to more effectively advance the Corporation's long range objectives. The contribution of strategic planning to increasing shareholder value has been strengthened by the establishment of an annual planning conference. At these conferences we review the long term strategic directions of each operating company and of Imasco as a whole. Our objective is to make sure that the full potential of each operating company and Imasco is realized.

Day to day excellence in all aspects of operations is critical to fully realizing long term potential. Each of Imasco's operating companies benefits from strong leadership and management skills. In order to ensure that these strengths are shared within the group, an Operations Advisory Committee has been established. This Committee reports to me and is chaired by Jean-Louis Mercier who has taken on the role of Vice-Chairman of Imasco Limited in addition to his existing duties as Chairman and Chief Executive Officer of Imperial Tobacco. Initial committee members are the leaders of Imperial, Hardee's, Shoppers, Peoples, The UCS Group and Imasco's two Executive Vice-Presidents.

Board of Directors

After more than 11 years of valued service, Daniel E. Somers resigned from his position as Executive Vice-President and Director of Imasco. Dan has acquired an equity position in a radio broadcasting group in the Maritimes and has assumed responsibility for management and development of the group. We extend our very best wishes for success to Dan in his new endeavours.

I am pleased to report that Brian M. Levitt and Russell E. Palmer will stand as management nominees for election to the Board at this year's Annual Meeting of Shareholders. Mr. Levitt is a partner in the law firm of Osler, Hoskin & Harcourt. Mr. Palmer is Dean of The Wharton School of the University of Pennsylvania.

Dividends

On February 8, 1989 the Board of Directors increased the quarterly dividend on the common shares by 8% to \$1.12 on an annualized basis. This marks the fifteenth consecutive year that Imasco has increased its dividend.

1989 Outlook

Imasco's performance and achievements in 1988 reflect the abilities, intelligence and commitment of 180,000 men and women throughout North America. Their contribution is sincerely appreciated and gratefully acknowledged.

Actions taken in 1988 have laid the foundation for further progress in 1989. I look for an increased contribution to earnings from each of our operating companies and for further progress on each of our key measurements of financial performance.

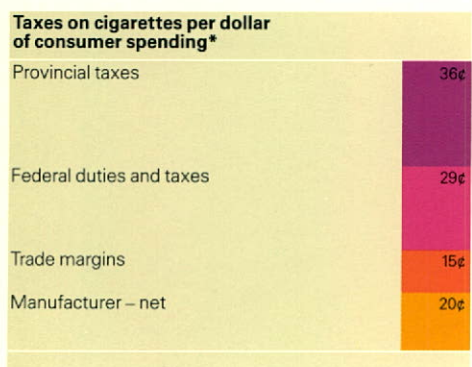
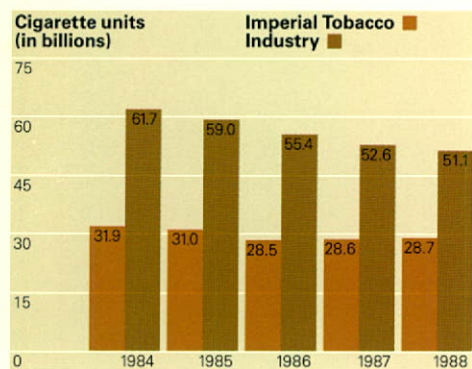
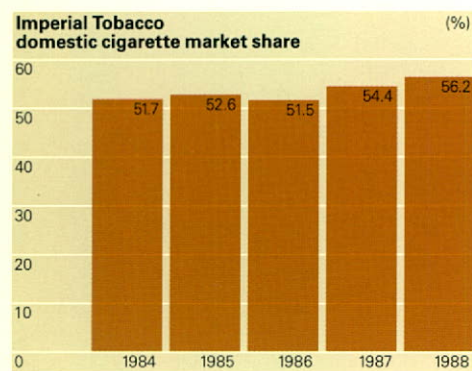


Purdy Crawford
Chairman, President and
Chief Executive Officer

Montréal, February 8, 1989

Highlights of operations

	1988	1987	Twelve months ended December 31		
			1986	1985	1984
Thousands of dollars, except as noted					
Revenues	2,018,065	1,925,987	1,754,618	1,701,837	1,449,085
Sales and excise taxes	1,156,052	1,109,809	1,042,579	944,324	727,002
Operating earnings	308,018	279,077	208,120	243,661	216,542
Operating margins (%)	15.3	14.5	11.9	14.3	14.9
Capital expenditures	18,923	25,595	23,323	16,555	20,357



Imperial Tobacco is Canada's leading tobacco enterprise with operations ranging from leaf tobacco buying and processing to the manufacture and distribution of the finest quality tobacco products.

The company has manufacturing facilities in Montréal, Québec, and Guelph, Ontario, with leaf processing plants in Joliette and LaSalle, Québec, and Aylmer, Ontario. Sales and/or distribution centres are situated in St. John's, Moncton, Montréal, Ottawa, Toronto, Winnipeg, Calgary and Vancouver.

The manufacture and sale of cigarettes constitute the largest segment of the business, representing 90% of revenues in 1988. Imperial Tobacco's major cigarette brands are Player's, du Maurier, Matinée and Cameo. Other products include fine cut tobacco for roll-your-own cigarettes, and cigarillos and cigars sold under well-known trademarks such as House of Lords, Reas, White Owl and Old Port.

Highlights of 1988

Once again, Imperial Tobacco's performance was strong in 1988. Revenues of \$2.0 billion were up 5% over 1987 and operating earnings of \$308.0 million increased 10% over the preceding year.

As expected, the sales decline in the Canadian manufactured cigarette industry continued in 1988. Despite this continuing trend, by further increasing our market share we were able to slightly increase our 1988 volume of shipments over the 1987 level.

In 1988 the Federal Government adopted The Tobacco Products Control Act and ratified the Canada-USA Free Trade Agreement. Both developments are certain to have long

term consequences for the Canadian tobacco industry and Imperial Tobacco has already begun to adapt to these new conditions.

The Tobacco Products Control Act

On January 1, 1989, The Tobacco Products Control Act, which calls for a gradual ban on the advertising of tobacco products, came into force. Imperial Tobacco has launched an action in the Québec Superior Court challenging the constitutionality of the legislation. The outcome of the challenge should be known in 1989.

In the meantime we are prepared to make the best of the few communication opportunities that are still available. We have, for example, incorporated a number of associated entities that will serve as vehicles for the sponsorship of a variety of sports and cultural events.

The future of The Tobacco Products Control Act now rests with the courts. But whatever the outcome of the legal challenge, in the interim the company will abide by the law and adapt to the new conditions in a manner that will permit continued progress.

The Canada-USA Free Trade Agreement

The Tobacco Products Control Act severely restricts the advertising of tobacco products in Canada, but does not preclude the spillover into Canada of tobacco advertising in U.S. publications. Over the longer term this could be damaging to domestic trademarks and to Canadian manufacturers.

In other areas we do not feel threatened by the long term implications of the Canada-USA Free Trade Agreement. We know

* For the Province of Ontario calculated for November 21, 1988.



Murphy

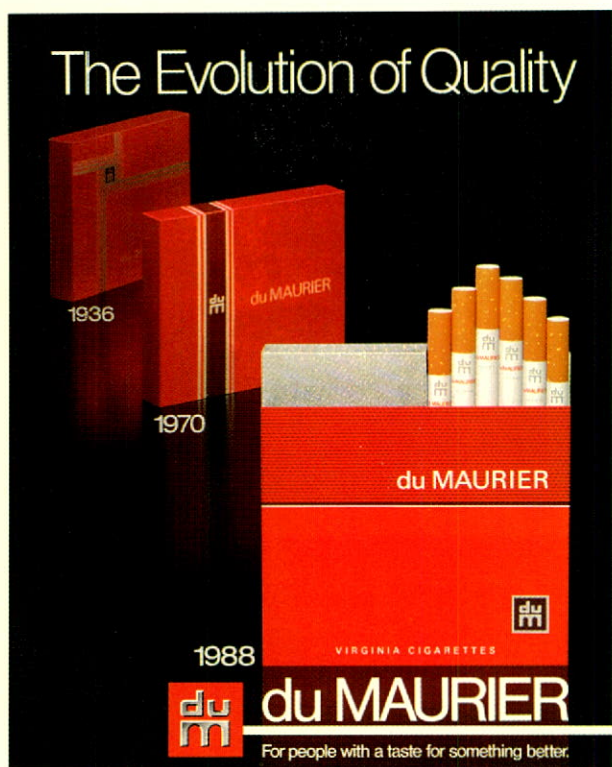
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...broadcast live to Soviet fans

du Maurier over the years. In 1988, sales of the du Maurier brand family represented 20.8% of the market.

The Player's brand family accounted for 24.9% of the market in 1988.



Canadian smokers' tastes, desires and expectations better than any other company in the world; our processing and manufacturing operations are efficient and our distribution network is highly sophisticated. Most important, our leading trademarks enjoy the confidence of Canadian smokers and our employees rank with the best anywhere in the world. These advantages give us the assurance that we can continue to build our share of the Canadian market, even in the face of increased competition from imported products.

Industry cigarette sales

The rate of industry decline slowed in the early part of 1988. Manufactured cigarette volume dropped just over 1% in the first six months, compared with losses of more than 5% in the comparable period of the previous two years. The slowdown in the rate of decline was the result of virtually unchanged consumer cigarette prices.

As the year progressed, five provinces increased taxes, the most notable being Ontario where taxes increased by 35%. As a result, industry volume declined further.

Volume for the year totalled 51.1 billion cigarettes, a decrease of 3% from 1987.

Imperial Tobacco sales

Imperial Tobacco continued to gain cigarette market share in 1988. Based on Statistics Canada figures, we acquired another 1.8 share points to reach 56.2% of the market. This brought our volume to 28.7 billion cigarettes, slightly above that of the prior year.

As in past years, our market share gains were largely due to the strength of our trademarks and the quality of the products associated with them. Contributing to our strong performance was the continued growth of the two leading trademarks in the Canadian market, Player's and du Maurier.

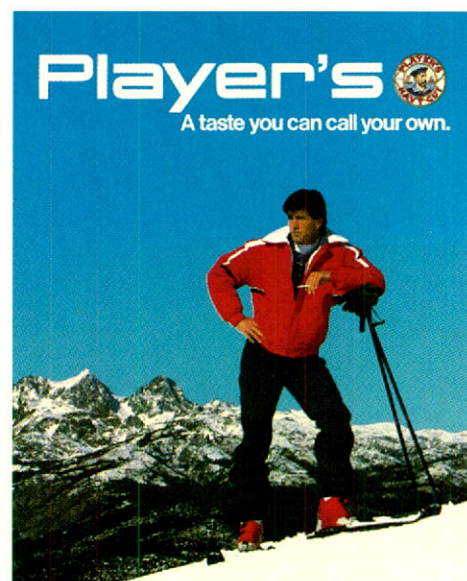
The Player's brand family, which is the most popular in Canada, was expanded in 1988 with the successful addition of Player's Medium. Player's Medium very quickly acquired a 1.2% share of market. Other members of the Player's family are Player's Plain, Player's Filter, Player's Light and Player's Extra Light. The Player's brand family accounted for 24.9% of the market in 1988.

All members of the du Maurier family continued to grow in 1988. Together, du Maurier, du Maurier Light, du Maurier Extra Light and du Maurier Special accounted for 20.8% of the market.

Our third major trademark, Matinée, was also expanded in 1988 with the addition of Matinée Special Mild. The Matinée family's market share increased to 5.8%.

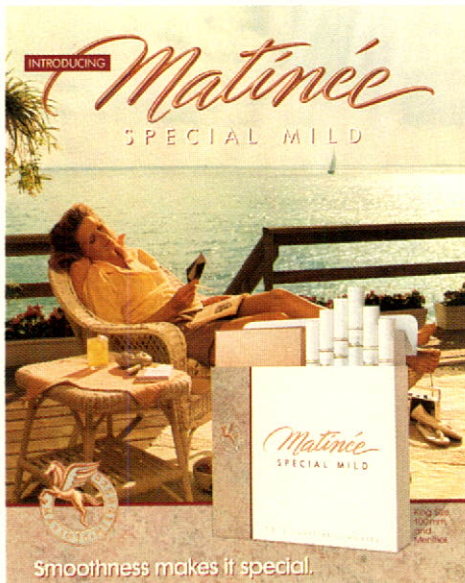
For several years, fine cut tobacco for roll-your-own cigarettes has been growing in popularity as an economic alternative to manufactured cigarettes. Industry fine cut volume grew another 2.5% in 1988, rising to 7.9 million kilograms. This segment now accounts for 13.5% of total smoking. Our volume in this market rose to 3.9 million kilograms, up 1.5% over last year. This equates to a 48.9% share of the Canadian fine cut tobacco market.

While we maintained our 90% share of the cigar market in 1988, the decline in popularity of these products resulted in our unit sales of small cigars dropping 7% to 194.2 million, and large cigar sales declining by 15% to 22.6 million units.



Sponsorships

During 1988 we were once again active in supporting cultural and sports activities across Canada. Thirty events from coast-to-coast were sponsored by either the Player's



or du Maurier trademark. We began in June, with the Molson Grand Prix in Montréal. This was followed by the popular du Maurier Downtown Jazz Festival in Toronto and the du Maurier International Jazz Festival in Vancouver. For the first time in its 14-year history, the du Maurier Classic women's golf championship was held at a western venue, the Vancouver Golf Club.

August was tennis month, with the Player's International for men taking place at the National Tennis Centre in Toronto, followed by the Player's Challenge for women at the Jarry Tennis Stadium in Montréal.

The prestigious Canadian Open Golf Championship was presented by du Maurier at Glen Abbey in Oakville at the end of August.

Canada's foremost equestrian event, the du Maurier International, took place in September at the beautiful Spruce Meadows facility in Calgary. Completing the equestrian calendar, the du Maurier Cup took place in Halifax in mid-October.

Player's, in partnership with General Motors, again sponsored a 16-race series of motor racing events during the summer months. In addition, Player's Race Weekends were held in Vancouver and Calgary.

The du Maurier Council for the Arts, first established in 1971, provided financial support to 50 performing arts groups from

across Canada and funded programmes at the Toronto Harbourfront.

We plan to continue to support all of these events and programmes in 1989. However, because of restrictions placed on brand name sponsorships under The Tobacco Products Control Act, most of the activities will be sponsored by the new corporate entities that have been established for these purposes.

Imperial Leaf Tobacco

Initiatives taken to encourage a longer term approach to leaf production in Canada are proving to be successful. As a result, the three-year agreements established in 1987 between the Marketing Boards and the manufacturers have been extended an additional year through 1990.

The 1988 Canadian flue-cured tobacco crop is projected at 142.9 million pounds, an increase of 8% over the 1987 crop. Imperial Leaf Tobacco plans to purchase 73 million pounds, of which approximately 13 million pounds are for overseas sales.

The Ontario leaf tobacco markets opened October 17 and it is expected that the sales will be completed by March 1989. While international competition continues to be strong, good demand for Canadian leaf is expected to continue as Canada is becoming recognized as a stable source of good quality tobacco at competitive prices.

Human resources

Seven collective agreements covering approximately 1,500 employees at Imperial's plants in Joliette, LaSalle, Montréal, Guelph and Aylmer were renewed in 1988. The new agreements are all of two years' duration, expiring in 1990.

In order to support our long term commitment to productivity growth, we continually assess our activities and personnel requirements. This process led to a decision in 1988 to reduce the total number of positions at our head office in Montréal. The initial phase of the programme resulted in the elimination of 59 positions by the end of the year. It was implemented in such a manner as to maintain our traditional commitment to the welfare of our employees while contributing to increased organizational efficiency and effectiveness.



Outlook

The past year was not only our most successful, it was also one in which we made an in depth assessment of our prospects and repositioned for the future.

The people at Imperial Tobacco do not fear change. On the contrary we thrive on it; but in today's environment, success does not come easily. It is first and foremost the result of imagination, hard work, collective cooperation, dedication and loyalty on the part of our employees.

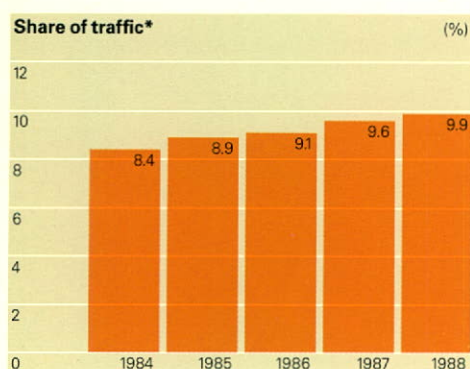
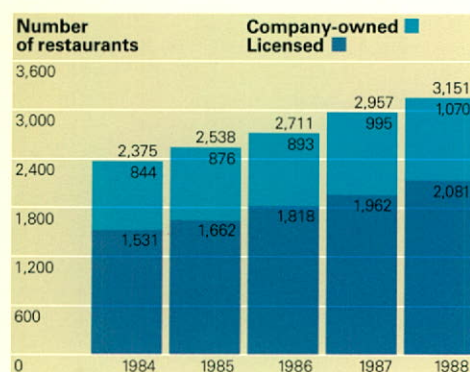
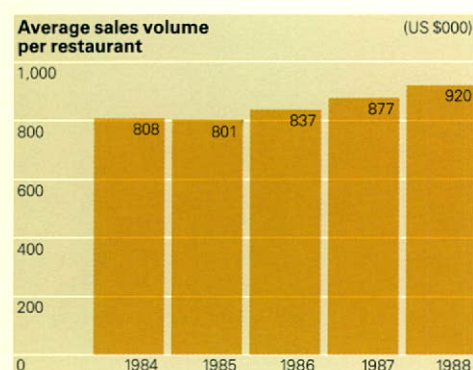
As we carry these strengths forward into the future, we expect to achieve continued earnings growth and market share gains in 1989 and the years beyond.

Jean-Louis Mercier
Chairman and Chief Executive Officer

Highlights of operations¹

	1988	1987	Twelve months ended December 31 1986	1985	1984
	Thousands of dollars, except as noted				
System-wide sales	4,058,860	4,059,057	3,721,626	3,248,397	2,832,736
Revenues	1,756,864	1,801,739	1,641,963	1,456,966	1,292,760
Operating earnings	130,334	137,323	129,004	117,114	106,422
Operating margins (%)	7.4	7.6	7.9	8.0	8.2
Capital expenditures	209,933	216,978	135,576	99,925	109,445

¹ Because of changes in the value of the Canadian dollar relative to the US dollar, actual performance is understated. Highlights in US dollars are presented on page 69.



Imasco USA operates Hardee's Food Systems, Burger Chef Systems, Grisanti and Fast Food Merchandisers.

Measured by system-wide sales, average unit sales volume and customer traffic, Hardee's is the third largest hamburger restaurant chain in the United States.

By year end there were 3,110 restaurants in the system of which 1,038 were company-owned and 2,072 were licensed. The restaurants are located in 39 states, the District of Columbia and nine other countries. Hardee's menu includes hamburgers, breakfast products, specialty sandwiches, salads, fried products and desserts.

The Burger Chef chain was acquired in 1982 and most of the restaurants have since been converted to the Hardee's format. At year end, nine restaurants were still operating under the Burger Chef name.

Grisanti is a group of 32 moderate price, casual dining, Italian restaurants located in 14 states.

Fast Food Merchandisers is a food manufacturing and distribution company which supplies food and paper products to all company-owned restaurants and most of Hardee's licensee-operated restaurants. Fast Food Merchandisers also supplies independent food service outlets.

Imasco USA

For the thirteenth consecutive year, our principal operating subsidiary, Hardee's, significantly increased system-wide sales, profits, average unit sales volume and its total share of customer traffic. The company also continued its unbroken record of growth in

operating earnings and expansion of the restaurant system.

These achievements come at a time when the Quick Sandwich segment of the U.S. restaurant industry is experiencing a slower rate of growth. As a result of this slowdown competition has greatly intensified and has now reached the point where many of our major competitors are reporting flat or declining sales.

Imasco USA's sustained growth and strong financial performance are due to a capable and experienced senior management team and our company's ability to respond to evolving consumer needs and expectations. We are prepared, and have often acted quickly, to modify our menu products, equipment and restaurant designs to meet the changing needs of our customers and the demands they place on us.

Indeed, new menu items, labour saving equipment and some very successful promotional campaigns have further strengthened the Hardee's system and enhanced our operating performance over the past 12 months.

A thorough assessment of asset productivity was an important and rewarding activity in 1988. As part of this assessment, we have systematically reviewed our restaurant assets with a view to maximizing performance. While we are pleased with the overall quality of our assets, the review resulted in a number of important steps.

To further enhance asset productivity, two sale and leaseback transactions were completed during the year. A total of \$321 million was raised by selling and leasing back 380 company-owned restaurant properties.

* Represents share of Quick Sandwich Restaurant category customer traffic. Source: CREST.



The changeover to cooking fried foods in vegetable oil has been applauded by many leading health and nutrition groups across America.

Through expansion Hardee's is able to open more of its "new image", energy-efficient buildings and attract new licensees.



These funds were used partly to finance restaurant expansion in 1988 and the balance was applied to debt reduction. Ultimately the total amount raised is expected to be deployed in the expansion of Hardee's.

Our review of assets also led to a decision, late in the year, to sell the Grisanti chain. Although Grisanti has good potential in the growing Italian dining business, we have decided to concentrate our resources on the development and expansion of our core business, the Hardee's system. We are now seeking buyers for Grisanti and expect to complete the sale in 1989.

Highlights of 1988

A number of key performance indicators substantially increased in 1988. In US dollars, system-wide sales rose 8% to a record of \$3.3 billion and Hardee's average sales per restaurant climbed almost 5% to \$920,000.

Revenues grew by 5% to a new high of US \$1.4 billion. Operating earnings, expressed in US dollars, totalled \$107.4 million and, adjusted for the effect of the sale and lease-back of restaurant properties, increased 18%.

Hardee's share of the market also increased. Although the company does not yet operate in all areas of the United States, the authoritative CREST survey showed that our national market share, based on customer visits, increased from 9.6% to 9.9% in 1988. Reflecting this growth, approximately 30% of the Hardee's restaurants had sales in excess of \$1 million for the year.

Hardee's

A large part of Hardee's success this year can be attributed to the introduction of Chicken Stix™, an all white meat chicken product. Unlike most of the competing products, Chicken Stix™ are made with whole chicken breast meat and are not chopped or formed.

Another innovation in 1988 was the decision to cook our fried products in pure vegetable oil. We are now the only major hamburger chain to cook all of its fried foods in vegetable oil, a step that has significantly lowered the fat and cholesterol content of the products. The changeover to vegetable oil has been applauded by many leading health and nutrition groups across America.

A further response to our customers' concerns about nutrition was the chainwide roll out of four varieties of prepackaged salads and Cool Twist™ cones and sundaes which carry the "real" dairy seal. In order to enhance the quality of the salads, they are prepared from fresh produce in the restaurants on the day that they are served.

These introductions have helped attract millions of women customers 18 to 35 years old and children under 12. Hamburgers remain the mainstay of our business but these new products have generated important incremental sales increases for our restaurants.

Additional customer traffic resulted from two successful repeats of the California Raisins promotion. To help sustain the higher traffic levels we improved our made-from-scratch biscuit programme, increasing the biscuit size from 3" to 3½". Hardee's breakfast programme continues to lead the industry.

Effective advertising also helped to build customer traffic. Our advertisements demonstrate the superiority of our hamburgers, biscuits, chicken, salads and dessert prod-

Much of Hardee's success this year can be attributed to the introduction of Chicken Stix™, an all white meat chicken product.

ucts. The theme of our campaign continues to be "We're out to win you over".

Innovative equipment is supporting our efforts to increase productivity and reduce labour costs. Introduced two years ago, the top-side cooker is now installed in all company-owned restaurants and is expected to be in all restaurants by 1990. This unique cooker improves product quality and substantially reduces service time by cooking meat on both sides simultaneously.

The same innovative thinking is being applied to the development of an automatic soft drink dispensing system. The system automatically fills the appropriate-size cup with ice and soda as orders are entered at the cash registers.

Hardee's development strategy of expanding into contiguous geographic areas where we can become a leader in terms of the number of restaurants continues to be successful. Last March we reached a milestone with the opening in Augusta, Georgia of our 3,000th restaurant. For 1988 as a whole, we opened 87 company-owned restaurants and licensees opened an additional 168.



We expect that our restaurant growth rate of about 8% annually will be sustained through 1989.

Restaurant expansion is critical to our efforts to attract good licensees and through expansion we are able to open more of our "new image", energy-efficient buildings. The new restaurants feature attractive woods and more glass for natural lighting. These features are also incorporated when we remodel existing restaurants. During the year, 134 company-owned restaurants were remodelled.

Finding, hiring and training the best available people to work in our restaurants is essential to our continued success and remains a top priority. With over 120,000 full and part time employees in the system, Hardee's is an important employer of teenagers, women and minority groups.

With such a large workforce, management development and crew training programmes are critical to our operation. Over 150 of our restaurants across the system are certified as training restaurants to further develop assistant managers.

In 1987, we opened our 45,000 square foot Management Development Center. More than 2,000 middle level managers have now completed one or more of the many courses offered at the Center.

As a method of training restaurant employees, our internal "Served With Pride" programme has been a great success. Through "Served With Pride", restaurant personnel are taught industry basics and the importance of consistently providing the best products and services to our customers. The programme is also a key factor in motivating restaurant employees and encouraging them to plan their careers with Hardee's.

Fast Food Merchandisers

Fast Food Merchandisers is both an important contributor to our operating earnings and a dependable supplier of high quality products for the restaurants.

This year, the company produced record amounts of hamburger, roast beef, chicken and pork products in its three manufacturing facilities. Freshness is assured by 10 strategically located distribution centres which deliver by truck to Hardee's restaurants throughout the system. A new distribution centre is planned for Taylorsville, Illinois to better serve Hardee's restaurants in the Midwestern states. The opening will be in the spring of 1989.

Community involvement

Throughout 1988, Hardee's continued to offer support to the communities in which we operate. For the first time this year, we joined forces with the Make-A-Wish Foundation, a non-profit organization that helps

Jack Laughery, Chairman, President and Chief Executive Officer, Imasco USA (l.) and Bill Prather, President and Chief Operating Officer of Hardee's (r.).



make wishes come true for children with life-threatening illnesses. A total of \$100,000 was raised for Make-A-Wish in 1988 and a further \$250,000 has been pledged for 1989.

Hardee's also continued its long time support of state and local Special Olympics programmes and established the Hardee's Children's Bone Marrow Transplant Programme at the Duke University Medical Center.

Outlook

The continued high level of performance of Imasco USA is a tribute to the combined support of our customers, licensees and employees.

Competition in our industry will almost certainly increase again in 1989. While we do not underestimate the strength of our major competitors, we are confident of our ability and expect to continue to meet our growth objectives in 1989.

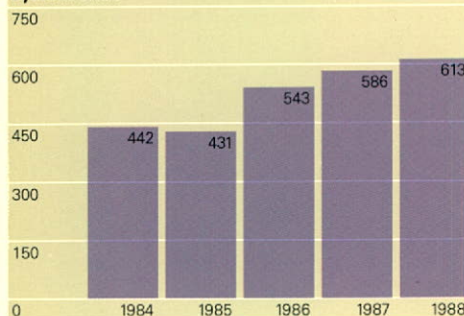
Jack A. Laughery
Chairman, President and
Chief Executive Officer

Highlights of operations

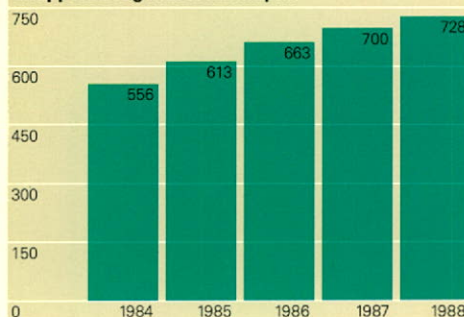
	1988	1987	Twelve months ended December 31		
			1986	1985	1984
Thousands of dollars, except as noted					
System-wide sales	2,355,627	2,073,402	1,774,918	1,522,292	1,350,165
Revenues	194,925	170,341	128,071	73,413	64,318
Operating earnings	57,079	51,302	48,876	42,498	36,353
Operating margins (%)	29.3	30.1	38.2	57.9	56.5
Average sales per store ¹	4,160	4,078	3,861	3,594	3,257
Capital expenditures	27,985	27,586	23,286	16,419	10,345

¹ In Shoppers Drug Mart/Pharmaprix locations.

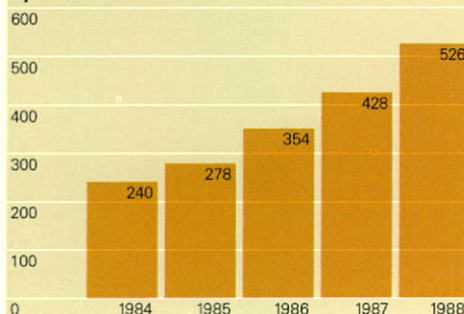
Number of stores system-wide



Sales per square foot Shoppers Drug Mart/Pharmaprix



Total prescription sales system-wide



"Everything you want in a drugstore" is both a promise to consumers and a positioning statement for Shoppers Drug Mart. As Canada's largest drug store group, we are fulfilling that promise every day and in so doing have further strengthened our leadership position in the market.

For over 25 years, the Shoppers Drug Mart stores have satisfied an ever increasing number of customers. Knowing what the customer wants and responding accordingly have resulted in the evolution of our product mix and increased shopper satisfaction. Our extensive consumer research surveys give us comprehensive data from which to identify trends in retailing. By re-merchandising store departments, introducing new product lines and adopting better methods of providing additional value and convenience to customers, we have maintained our leadership as responsive retailers. We are, indeed, "Everything you want in a drugstore".

Highlights of 1988

Total system-wide sales increased 14% over the prior year despite stiff competition from deep discount drug stores, combination food and drug stores and "superstore" supermarkets. On a comparable store basis, Shoppers Drug Mart/Pharmaprix sales increased by 10%. Operating earnings for the year were up 11% over 1987 and the total number of stores under all concepts increased from 586 to 613.

Asset productivity

Actions taken in 1988 will improve our return on assets in the future. In June, we converted the Super X stores, acquired in 1986, to the Shoppers Drug Mart format. Sales increased significantly following the conver-

sion and an improved contribution to 1988 earnings is expected from these stores.

Six of the seven Pharmaprix Carnaval stores in the Province of Québec were sold during the year. These stores were unprofitable and, after careful assessment, we decided to discontinue the concept. The seventh was converted to a regular Pharmaprix store. In total, 15 unprofitable stores closed in 1988.

In 1989, further improvements in asset productivity are expected when we discontinue another concept, Howie's - More Than a Drugstore. The 11 Howie's are company-owned, off-price, discount drug stores. They are being converted to the Shoppers Drug Mart format in 1989.

Among the 42 new locations opened in 1988, many were acquired from independent pharmacists, most of whom were retiring from active business. Others decided to join the Shoppers Drug Mart family in order to improve their businesses.

The Shoppers Drug Mart Food Basket stores, which combine the traditional drug store product mix with selected food items, were increased by eight units. There are now 24 of these stores in the system.

Shoppers Drug Mart Home Health Care Centres specialize in supplies for chronic or post-operative patients and persons recovering from injuries. Each centre is part of a regular Shoppers Drug Mart. During the year two were opened, bringing the total to 18.

Government relations

All levels of government are becoming more involved in aspects of retailing that have traditionally been the responsibility of the pri-





vate sector. We recognize the need to work in harmony with public policy makers on issues such as Sunday shopping, the containment of health care costs and levels of reimbursement for the dispensing of prescriptions under government insured plans.

Resolution of these issues involves important considerations that affect the health, safety and well-being of the public. Shoppers Drug Mart, as members of the community health care team, must make these considerations known to those who influence public health policy. We are doing so at every opportunity.

The Shoppers Drug Mart Associate

Since its introduction in the mid-1960s, the Shoppers Drug Mart Associate concept has been the key factor in our long term business growth and profitability. The two basic principles remain: first, to provide a variety of corporate services to the drug store operators or Associates so as to produce economic benefits for both the company and the Associates; and second, to deliver the benefits of savings, selection, service and convenience to consumers.

Unique in North America, the Associate concept is responsible for the entrepreneurial effort being made at store level and for the national prominence that Shoppers Drug Mart enjoys in the drug retailing market.

Marketing

An important strategy in meeting our marketing objectives is the creation of innovative and meaningful promotions that attract customers into the stores. Advertising programmes during the year included more of our successful Bea Arthur commercials, the distribution of 45 separate flyers to over 7.5 million homes and extensive use of special offers, consumer gifts and contests cosponsored with a number of other national retailers.

Cosmetics promotions included the popular Vogue Entertaining Guide and a special offer of elegant silver plated candleholders, both of which were available free with a specific purchase of cosmetics.

We are now Canada's largest retailer of cosmetics and related accessories. After extensive consumer research, steps are

being taken to improve the ambience of our cosmetics departments with contemporary, custom-designed fixtures and lighting. The departments are also being re-merchandised for greater customer appeal. These changes are being made at locations across the country on a priority basis. We are also having good success with the marketing of cosmetics and fashion accessories under the Rialto brand name, available exclusively at Shoppers Drug Mart stores. These upscale products add to the high fashion image of our cosmetics departments.

A reliable measure of our success is market share. Based on Statistics Canada figures, Shoppers Drug Mart has a 32% share of the national drug store market. Sales productivity, currently at \$728 per square foot, compares with the North American average of approximately \$260, and is expected to increase steadily in the years ahead.

Corporate Brands

The Corporate Brands division is responsible for our private label offerings under the trade names Life Brand and Shoppers Drug Mart. With over 1,500 items and sizes available exclusively at Shoppers Drug Mart stores, these products are an important source of retail sales. Consumer acceptance of Life Brand is gratifyingly strong. In many product categories, Life Brand products rival the top-selling national brands.

The success of Life Brand is directly related to its market positioning. Each product is at least equal in quality to the nationally advertised equivalent and each is pre-tested in the laboratory and by consumer panels. The most important attribute of Life Brand products is a commitment to quality which is supported by a full money back guarantee printed on all packaging.

Distribution

Most of the products stocked in a Shoppers Drug Mart store are ordered from manufacturers for direct shipment to individual stores. Often, because of distances and delivery times, Associates must order in quantities that strain their storage facilities and lower their stock turns.

An important refinement in the distribution of selected products was instituted in 1988. We now use the services of independently

Shoppers is having good success with the marketing of cosmetics and fashion accessories under the Rialto brand name, available exclusively at Shoppers Drug Mart stores.

Tony Fernandez (l.), and Mario Lemieux (r.), spokespersons for the Fair Play programme.



owned dedicated warehouses in all regions for certain bulk items and Corporate Brands products. Associates can now rely on more timely deliveries and maintain consistent availability of these products for their customers. As well, because smaller, more frequent shipments are possible, space productivity has improved both in the stockrooms and on the selling shelves.

Communications

There are now over 20,000 employees in the Shoppers Drug Mart system, working in



stores from St. John's to Vancouver Island. Information access and effective communications are vitally important to the success of each store and its overall productivity. Communications needs throughout the organization are met by electronic mail, newsletters and video tapes produced in-house by SDM-TV.

Store employees participate in a number of programmes designed to equip them with better knowledge and customer relations skills. Our C.A.R.E. programme (Customers Are Really Everything) has been augmented by One Step Further, a motivational programme that improves interpersonal skills.

We also conduct a wide variety of courses and seminars at our training facility, The Koffler Academy. This has proved to be an excellent way to identify and develop employees for career advancement within the company.

Shoppers Drug Mart makes extensive use of information and data management systems to extract vital information for decision making. Pharmacy department computers for patient profiles, third party billings and book-keeping have also become an important management aid for Associates.

Community involvement

To reinforce the Shoppers Drug Mart tradition of good corporate citizenship, we developed a number of programmes in 1988.

Among the national projects are a drug education programme in conjunction with the Canadian Association of Chiefs of Police and visits by our Life Bear mascot to children's hospitals and charity events.

Locally, our stores are active in their communities, supporting youth amateur sports. Over 1,000 community sports teams are assisted by their local Shoppers Drug Mart pharmacies. These efforts are further supported at the corporate level by sponsorship of regional and national tournaments, training clinics and publicity posters.

Our most recent co-sponsorship in the sports area is with the Federal Government. The Fair Play programme, introduced in 1988, helps train community coaches to encourage fairness and good sportsmanship among young athletes.

Herb Binder, President and Chief Operating Officer (l.), David Bloom, Chairman and Chief Executive Officer (c.) and Dale Daley, Executive Vice-President, Atlantic (r.).



Outlook

Shoppers Drug Mart has a history of commitment; to the Associate concept, to the consumer, to its employees and to the community.

We fulfil our commitment by continuing to be a leader in drug store retailing and by providing health information and services to the community. We are committed to people, positioning and productivity, the ingredients of retailing excellence. And we are fulfilling our promise to consumers. Shoppers Drug Mart is "Everything you want in a drug-store."

As we enter 1989 we will continue to build on these strengths and attain further growth in sales, productivity, market share and earnings.

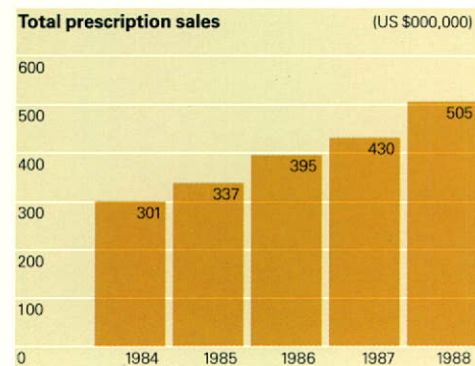
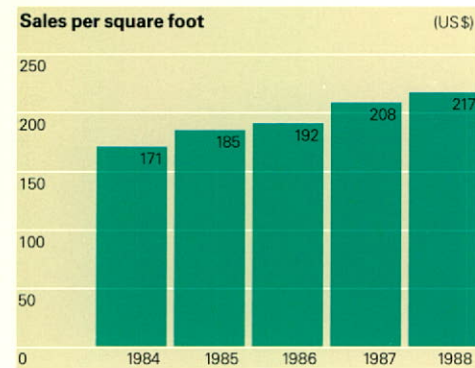
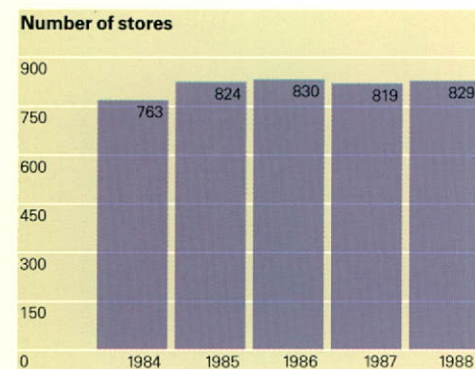
David R. Bloom

David R. Bloom
Chairman and Chief Executive Officer

Highlights of operations¹

	1988	1987	Twelve months ended December 31		
			1986	1985	1984
Thousands of dollars, except as noted					
Revenues	1,841,656	1,850,175	1,922,496	1,737,282	973,458
Operating earnings	(8,342)	(22,551)	139	52,503	44,732
Operating margins (%)	(0.5)	(1.2)	—	3.0	4.6
Average sales per store (thousands of US dollars)	1,806	1,705	1,666	1,543	975
Capital expenditures	41,876	29,153	32,663	58,475	29,850

¹ Highlights of operations expressed in US dollars are presented on page 69.



Peoples Drug Stores is a chain of company-owned and operated drug stores in the United States. Stores are operated under the names Peoples, Reed, Health Mart, Rea and Derick and Bud's.

At the end of 1988, the market area serviced included 13 states bounded by the Atlantic Coast, Georgia, Iowa and New York. The company operates six regional distribution centres which supply the stores with approximately 75% of their merchandise. An additional 2% of merchandise is supplied by Hillcrest Sales, a wholly owned subsidiary which provides rack-jobbing and merchandise services to the chain.

Despite a sharp decline in operating results that began in 1986, Peoples has maintained market share leadership, with first or second share position in its principal markets.

Market appeal is based on convenience of locations, consumer trust in Peoples' pharmacists and the wide range of day-to-day consumable products offered. Peoples has been distinguished from other drug store chains by its emphasis on health care information and services. Extensive health care information programmes have also helped to establish an excellent reputation for Peoples' pharmacists as community health professionals.

Highlights of 1988

In 1988, we completed the first full year of the three-year strategic plan created in 1987 to return the company to profitability. While we did not achieve all of our goals, significant progress was made. Operating earnings in the fourth quarter were \$8.3 million compared with \$3.4 million last year. The operating loss for 1988 as a whole was

reduced to \$8.3 million or approximately one third of what it was in 1987.

Revenues, expressed in US dollars increased 7% to \$1.5 billion. Prescription sales, which increased 15% on a comparable store basis in 1988, continue to lead all merchandise categories. Prescription sales represented approximately 34% of total sales in 1988.

The number of stores increased slightly to 829 stores at the end of 1988, compared with 819 at the end of 1987. Sales on a comparable store basis increased 5.9% over the prior year. The decline in customer traffic, which started in 1986, was reversed during the year. Gross margins met plan in the fourth quarter, about a half year behind our goal under the three-year schedule.

While the earnings improvement is encouraging, it was largely due to expense reductions. We did not achieve sales growth targets and gross margins for the year were lower than expected.

In recognition of the need to achieve more rapid progress, we took steps in late 1988 and early 1989 to reorganize the company and accelerate its return to profitability. On January 18, 1989 we announced the sale of our 85-store Reed division and our intention to sell an additional 240 stores. The Reed stores were mostly in the state of Georgia and the stores that are yet to be sold are in the Midwestern states, principally Indiana and Ohio.

The approximately 500 remaining stores are in the District of Columbia, Maryland, Virginia, West Virginia and Pennsylvania. Following the reorganization, Peoples will be more concentrated geographically and well positioned in its strongest markets. On its



WELCOME TO
PEOPLES DRUG

LET PEOPLES
FILL YOUR NEXT
PRESCRIPTION

The decline in customer traffic, which started in 1986, was reversed during the year.

Electronic scanning point of sale cash registers enable the marketing department to exercise more exacting control over product mix, pricing, margins and inventory levels.



reorganized basis, the company would have made a modest profit in 1988.

Strategic plan

In accordance with our strategic plan, in 1988 we emphasized store remodelling, systems development and the consolidation of our operations.

Substantial progress has been made on the installation of electronic scanning point of sale cash registers. The tests conducted in 11 stores in 1987 led to the installation of 101 more units in 1988. Of the 112 stores operating with point of sale scanners at year end, 108 are located in our core market area.

Sufficient scanners were on-line by mid-year to create a statistically valid sample for the entire company and enable the marketing department to exercise more exacting control over product mix, pricing, margins and inventory levels during the final quarter of the year. The benefits of this increased control will continue to be realized in 1989.

An additional 235 pharmacy computers were installed bringing the total computeri-

zation of pharmacies to over 80% of the chain. By year end 85% of the stores in our core market area were operating with pharmacy computers.

More user-friendly software for pharmacy computers was introduced to speed the handling of prescriptions and third-party reimbursement. An automated help desk for pharmacy computer and point of sale computer operations was instituted, a first in the industry.

Other systems improvements included: the design of a centralized system to control and improve information movement between stores and headquarters; the development of a new price management sub-system; the establishment of formalized quality control programmes and comparative operating performance reports for all distribution centres and fleet operations; and the testing of a voice message delivery system to improve communications within the chain.

A 90,000 square foot office and distribution centre was opened during the summer for our rack-jobbing subsidiary, Hillcrest Sales. The new facility was completed on time and

on budget. It has enabled Hillcrest to expand its coverage of Peoples stores, adding 2,500 stock keeping units that were previously serviced by independent jobbers. This served to increase gross margins for both Peoples and Hillcrest.

Further expansion of Hillcrest's operations is planned for 1989. In particular, Hillcrest will soon be the exclusive supplier of the toy category, an important factor in the gross margin mix.

During the year, 265 stores were remodelled, incorporating improvements that were identified by consumer research conducted in 1987. Merchandise has been relocated to emphasize the core drug store product mix and give prominence to cosmetics and health and beauty aids.

Results in our revitalized cosmetics departments were gratifying, particularly in the Christmas season. Our cosmetics marketing programme has undergone major changes in direction, field supervision and advertising exposure. In addition we now have cosmetic sales specialists in more than half of our Pennsylvania and Mid-Atlantic stores.

The Peoples Wellness Express vans provide preventive health screening for the public.

Consumer research continued in major markets, tracking variances with prior studies. In particular we analyzed shifts in consumer attitudes on stores and products, as well as the penetration and effectiveness of our advertising programmes.

Community involvement

The extensive involvement of Peoples' pharmacists in the community has always been an important strength of the company. This year a number of new projects were undertaken to further enhance our reputation and provide meaningful assistance to the communities in which we operate.

One very successful project is the Peoples Wellness Express. The Wellness Express is a mobile health clinic, staffed by health professionals from local hospitals. It provides preventive health screening for the public to detect problems with cholesterol, diabetes, hearing, vision and cardiovascular fitness. We are now operating two Wellness Express vans. The vans are scheduled so as to visit one Peoples store a day, three days a week and they also participate in selected community events.

Another very successful programme has served to strengthen community ties in Washington, DC. For the benefit of the hearing impaired in the area, Peoples joined forces with the ABC television affiliate and is underwriting the cost of close captioning the 6:00 p.m. and 11:00 p.m. news.

Outlook

While falling short of our 1988 earnings goal, the progress made in the past year has demonstrated the underlying soundness of our strategic plan. This disciplined, results-oriented planning process, inaugurated in early 1987, has led to solid achievements. In addition, in the key departments of marketing, finance and operations, the management team was substantially strengthened in late 1987 and early 1988.

Results for the year, and particularly the last quarter, indicate that we are on the right track. The reorganization that is now under way will speed our progress. Revenues in 1989 will be lower than in 1988, reflecting the reduced number of stores. However, operating earnings will improve and 1989 as a whole should be profitable.

David Eisenberg, Senior Executive Vice-President and Chief Operating Officer, Peoples (l.), with David Bloom, Chairman and Chief Executive Officer, Imasco Drug Retailing Group (r.).



Despite the fact that we still face many challenges, throughout the organization, the level of commitment to the company and our goals continues to be exceptional. This factor, more than any other, gives rise to our optimistic outlook for 1989 and the years that follow.

David R Bloom

David R. Bloom
Chairman and Chief Executive Officer
Imasco Drug Retailing Group



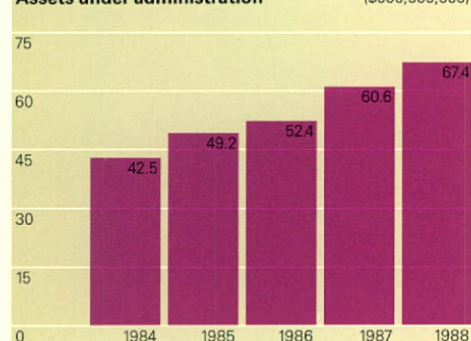
Highlights of operations

Twelve months ended December 31
1988 1987

Thousands of dollars

CT Financial pre-tax earnings, before preference share dividends of a subsidiary	359,016	302,507
Income taxes	(110,796)	(85,980)
Preference share dividends	(16,242)	(15,548)
Net earnings of CT Financial	231,978	200,979
Minority interest	(30,562)	(29,701)
Fair value amortization	(40,030)	(29,939)
Financing and administration – net of tax	(19,335)	(14,822)
Equity in net earnings of Imasco Enterprises Inc.	142,051	126,517

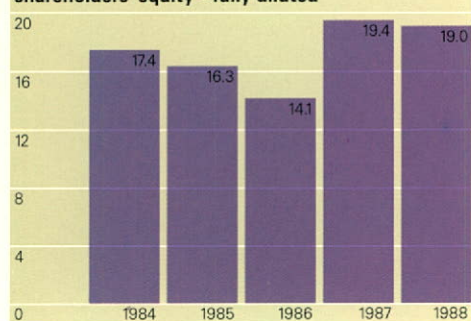
Assets under administration* (\$'000,000,000)



Net earnings per \$100 of average corporate assets* (\$)



Return on average common shareholders' equity – fully diluted* (%)



Imasco has a very significant presence in the Canadian financial services sector through its ownership of approximately 98.4% of the common shares of CT Financial Services Inc.

The principal operation of CT Financial Services is the Canada Trustco Mortgage Company. Canada Trust is the commonly used name for Canada Trustco and its wholly owned subsidiary, The Canada Trust Company. The companies are completely integrated for operating purposes, with Canada Trustco licensed under the Loan Companies Act of Canada and The Canada Trust Company under the Trust Companies Act of Canada.

Imasco Enterprises

Imasco's CT Financial Services shares are held by Imasco Financial Corporation, a wholly owned subsidiary of Imasco Enterprises, which is, in turn, a wholly owned subsidiary of Imasco.

The financial statements of Imasco Enterprises include the results of CT Financial Services adjusted for minority interests and the amortization of the purchase price premium paid on acquisition.

Imasco Enterprises also consolidates the assets, liabilities and results of Genstar Development Company, Genstar Mortgage Corporation, a one-third limited partnership interest in Sutter Hill Ventures, a portfolio of other venture capital investments and certain other assets and liabilities.

Imasco accounts for the operations of Imasco Enterprises by the equity method and the net earnings of Imasco Enterprises form part of Imasco Limited's operating

earnings. Principally as a result of the earnings performance of CT Financial Services, the equity of Imasco in the net earnings of Imasco Enterprises increased 12% to \$142.1 million in 1988.

The use of the equity method of accounting understates the importance of CT Financial Services to Imasco. If stated on a pre-tax basis, and after deducting amortization of fair value and goodwill, CT Financial Services' earnings would be \$319 million. On this basis, financial services contributed 38% of Imasco's total pre-tax operating earnings in 1988.

Canada Trust

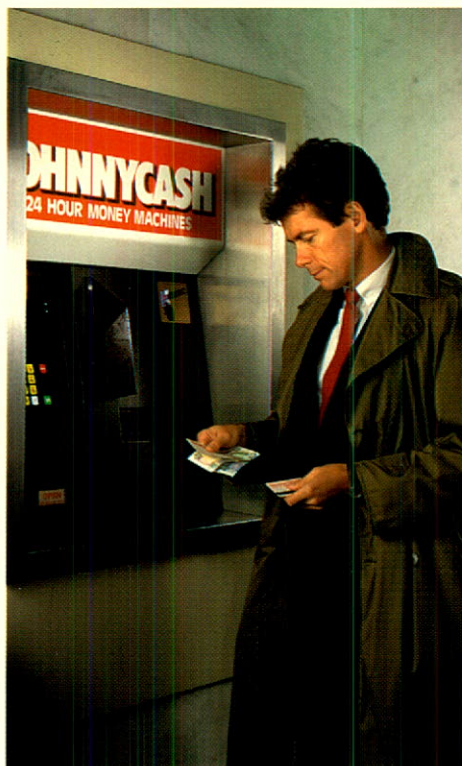
Canada Trust serves several million Canadians in all 10 provinces. A complete range of savings and loan services is available through 317 branches, and 22 offices in major centres offer pension and personal trust services. Retail and commercial real estate brokerage services are provided through 193 offices. The head office is in London, Ontario, with executive offices and corporate operations located in both London and Toronto.

CT Financial Services has several other subsidiaries. Among these, the most significant operating company is Truscan Realty which holds and manages all real estate investments and is involved in property development, leasing and management. CT Investment Counsel provides investment management and counselling. Other subsidiaries are involved in the distribution of mutual funds, loans to non-Canadian borrowers and risk sharing insurance.

CT Financial Services is a public reporting company with shares trading on the Toronto and Montréal stock exchanges. The follow-

* CT Financial Services Inc.





ing comments on operations are extracted from CT Financial Services' Annual Report. Copies of the report can be obtained from the Secretary, CT Financial Services Inc., 275 Dundas Street, London, Ontario, N6A 4S4.

Highlights of 1988

CT Financial Services' 1988 earnings before income taxes and preference share dividends were \$359.0 million, an increase of 19%. Net earnings for the year increased 15% to \$232.0 million compared with \$201.0 million in 1987.

Expressed as an annualized return on average corporate assets, net earnings were \$0.85 per \$100 of assets, compared with \$0.80 in 1987 and an average of \$0.72 for the six major Canadian chartered banks in their 1988 fiscal year. In 1988, CT Financial Services' return on average common shareholders' equity was 19.0% compared with 19.4% in the prior year. For Canada's six largest banks this measure was 16.9% on average for fiscal 1988.

Operating expenses were \$617.6 million, an increase of \$63 million or 11% over the prior

year. In 1988, CT Financial Services' ratio of operating expenses to average corporate assets was 2.26% compared with 2.22% in 1987. Most of the increase in non-interest expenses was related to programmes and efforts aimed at further improving customer service.

Assets under administration at book value increased 11% to \$67.4 billion at year end. Corporate assets increased \$3.7 billion or 15% to \$29.2 billion. Personal, pension and pooled trust funds increased by \$3.1 billion or 9% to \$38.2 billion.

Retail financial services highlights

Significant new savings and loan business was generated by Canada Trust in 1988. Total deposits grew at a brisk pace, increasing \$3.5 billion or 14% compared with \$1.1 billion and 5% in 1987.

The personal savings portfolio of \$22.8 billion at December 31 represented 14.4% of similar chartered bank deposits compared with 14.3% a year ago. Personal deposits increased 15% compared with the chartered banks' growth of 14%. At year end, the pool

of total personal domestic deposits was the fourth largest in Canada and Registered Retirement Savings Plan (RSP) deposits were the highest of all Canadian financial institutions. Canada Trust's demand deposit portfolio of \$12.0 billion at year end increased \$1.5 billion or 14% compared with \$237 million or 2% in 1987. The term deposit portfolio of \$15.4 billion at year end increased \$1.9 billion compared with \$886 million in 1987.

Canada's number one RSP continued to lead the market in 1988. Retirement savings deposits increased \$701 million or 11% compared with \$588 million and 10% in 1987. The total portfolio at December 31 had reached \$7.0 billion. New post-RSP deposits, mainly Retirement Income Funds (RIFs), grew sharply. The RIF portfolio more than doubled with an increase of \$158 million.

Reflecting higher volumes, total savings related fees were up 6% to \$54.4 million compared with \$51.3 million in 1987. Canada Trust led the industry a few years ago in the disclosure of service fees and continues to make this information readily available to customers in all branches.

New business written in residential mortgages and personal and consumer loans was a record \$6.8 billion in 1988. The personal and consumer loan portfolio of \$3.8 billion increased \$764 million or 25% compared with \$916 million and 42% in 1987.

By year end the residential mortgage portfolio had reached \$12.5 billion, an increase of \$1.6 billion or 15%. This increase compares with \$1.3 billion and 14% in 1987. At the end of 1988, Canada Trust's domestic residential mortgage portfolio was the third largest of all Canadian financial institutions.

Most of the competition in retail financial services comes from the major banks and superior performance is needed to overcome their larger budgets and distribution networks. Canada Trust's success is based on its well-conceived, integrated marketing strategies, supported by creative and aggressive execution plans.

Trust services highlights

In trust services, 1988 was a year of considerable accomplishment. Assets under administration grew 11%. Personal, pension and pooled trust funds, measured at book

Truscan Realty holds and manages all real estate investments. Shown is Canada Trust's new Québec regional office, presently under construction in downtown Montréal.

With nearly 4,200 sales representatives and 193 offices across Canada, Canada Trust is the country's second largest real estate broker.

value at year end, were \$38.2 billion, up from \$35.1 billion at December 31, 1987. First year fee revenue from new business was \$5.9 million compared with \$7.5 million in 1987, while total trust fee revenue was \$80.3 million compared with \$75.7 million in 1987.

During the year, strategic planning was completed to narrow the company's focus in trust services and provide direction for future development. As a consequence, the corporate trust operations were sold. The decision was based on market conditions and a full review of trust activities. The corporate trust market is one of slow growth and intense competition. Leaving this market will allow Canada Trust to concentrate on areas of considerable strength and better prospects.

An important consideration in completing the sale was that the disruption to customers and employees be minimized. The sale was concluded quickly and without service problems. Virtually all affected employees either accepted employment with the purchaser or alternative careers with Canada Trust. Corporate trust fees to the date of sale were \$11.5 million compared with \$12.3 million in 1987.



Excluding corporate trust, the division generated after tax earnings of \$6.0 million compared to \$1.0 million in 1987. Good control of direct expenses was evidenced by the fact that the number of full time equivalent employees at year end did not increase over the prior year. Risk management was also greatly improved and as a result net losses were substantially reduced.

Real estate sales highlights

In 1988, gross revenues reached \$254 million, up from \$247 million in the prior year. However, net earnings decreased from \$3.9 million to \$2.9 million. Higher commission payouts to the sales force and rising operating costs resulted in the disproportionate increase in expenses.

New initiatives are expected to improve profitability in 1989. Special emphasis will be placed on keeping Canada Trust's residential sales force to its full complement, thereby maximizing volume in relation to fixed costs.

The prospects for real estate sales in the first half of 1989 are excellent. If markets remain stable throughout the year, profits are expected to recover significantly.

Truscan Realty

Truscan Realty develops and manages Canadian real estate for Canada Trust occupancy, portfolio investment and development.

In 1988 the value of real estate investment properties grew by \$119.6 million to \$410.7 million. The portfolio is geographically diversified and represents in excess of 5.4 million square feet of space. Construction commenced during the year on two major joint venture projects: Place Canada Trust, a

232,000 square foot office project in Montréal; and World Exchange Plaza, a mixed use project of 470,000 square feet coupled with a hotel and underground parking garage in downtown Ottawa. The interests in these projects held by Truscan are 50% and 33⅓%, respectively.

The 1,225,000 square foot Canada Trust Tower in the financial district of Toronto is on schedule for occupancy in mid-1990. Truscan has a 20% interest in the tower and Canada Trust will be leasing 266,000 square feet of the available office space.

Truscan's revenues from rental properties in 1988 were \$57.7 million, up \$5.5 million from one year earlier and total revenue increased 15% to \$69.2 million. Net earnings, before elimination of intercompany transactions, increased to \$8.7 million from \$5.6 million.

Truscan's properties are independently appraised on a cyclical basis. At year end, the estimated market value of the properties exceeded depreciated value by \$104 million compared with \$92 million in 1987.

1989 Outlook

Mervyn L. Lahn, Chairman and Chief Executive Officer and Peter C. Maurice, President and Chief Operating Officer discussed the year ahead in the following terms in the CT Financial Services' Annual Report.

"Entering 1989, the economy proceeds into its seventh year of unbroken expansion. Concerns remain the same as one year ago: huge federal deficits; unstable currencies; third world debt burden; leveraging of corporate America; trade imbalances; and the free trade issue. All of these problems have been around for some time and given no external shocks, economic expansion should continue for the next twelve months. However, considering the late stages of this economic cycle, growth in gross national product, after adjustment for inflation, is projected to slow to about 2½%. Interest rates are expected to peak in the first half and decline in the second. Inflation will likely average 5% and unemployment 8%.

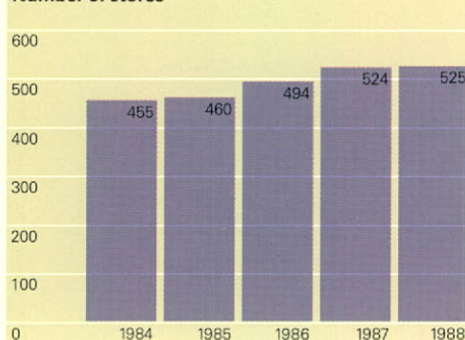
"The operating environment for CT Financial Services Inc. is anticipated to be similar to that of 1988. Barring economic surprises, 1989 should be another good year with net earnings projected to rise moderately."



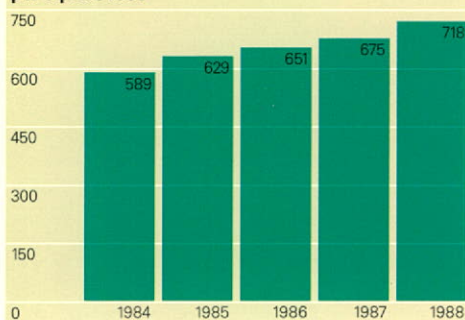
Highlights of operations

	1988	1987	Twelve months ended December 31		
			1986	1985	1984
Thousands of dollars, except as noted					
Revenues	256,593	235,331	205,934	187,820	173,962
Operating earnings	7,555	6,709	6,649	5,536	5,390
Operating margins (%)	2.9	2.9	3.2	2.9	3.1
Average sales per store	489	461	432	410	380
Capital expenditures	4,862	6,856	4,098	2,992	2,183

Number of stores



Average sales per square foot



The UCS Group is a chain of 525 specialty, small-space, retail outlets in high pedestrian traffic locations across Canada. The stores carry a wide variety of everyday convenience items including newspapers and magazines, cigarettes and smokers' accessories, confectionery, snack foods, gifts and souvenir selections.

The majority of the UCS stores cater to repeat customers daily. They are located in malls and commercial office towers, where fast, efficient and friendly service is paramount.

Highlights of 1988

During 1988, The UCS Group focussed on key marketing and human resources elements, enabling management to guide the company to its best ever achievement in sales and profitability.

Revenues and operating earnings reached record levels, increasing 9% and 13% respectively over the prior year. Sales per square foot were up 6% over 1987.

All divisions are performing well and in accordance with the company's expectations. During the year, we carefully assessed our operations on a store-by-store basis. As a result of our assessment, 24 units were opened and 23 unprofitable locations were closed or sold. Major renovations or relocations occurred in every division.

In a number of our major markets, we continue to be challenged by the well-publicized shortage of labour in the retail sector. We responded this year by appointing a vice-president to initiate new recruitment, training and employee motivation procedures. These initiatives will ensure that the com-

pany attracts its fair share of the available labour pool in the years ahead.

The transition of the company from product based to consumer driven, a process initiated five years ago, is virtually complete. The importance of the customer is reflected in every aspect of our operations including store ambience, product selection, merchandising, and staff training.

Operations

Despite a declining national market for tobacco products, we improved our total tobacco sales by 9% in 1988. The increase was partly due to an upsurge in demand for fine cut tobacco, used for roll-your-own cigarettes, but it is also related to the wide selection of products and accessories that we carry to satisfy customer requirements.

Tobacco-related legislation from all three levels of government has increased in recent years. Our employees are fully aware of laws regarding smoking in the workplace and those that govern the sale of tobacco products to minors. We are ever watchful of our operations to ensure that all of these regulations are complied with.

Our sales of snack foods grew during the year, a reflection of the consumer trend to eating on the run. More frequent purchases of snack foods is one way that many people cope with the busy schedule they set for themselves, dividing their time among jobs, families and leisure activities.

With the steady increase in global travel, Canadian souvenirs are on virtually every tourist's shopping list. Our hotel, airport and duty free shops are supplying this growing market. In addition, we presently have



Our continued success is, above all, a tribute to the more than 2,900 dedicated employees throughout our organization. As we enter 1989, I thank them warmly for their very substantial past efforts and their continuing commitment to our future success.

Norm Latowsky

Norman Latowsky
President and Chief Executive Officer

souvenir shops in such major resort areas as Banff, Lake Louise, Niagara Falls and Kananaskis, the site for skiing events at the 1988 Winter Olympics. UCS is already the leading retailer of souvenirs in Canada and further growth is expected.

The duty free market is also poised for rapid growth. Our airport duty free shops are located in Montréal, Ottawa, Winnipeg, Saskatoon, Regina and Edmonton. To meet the challenge of future growth we have now established a Tax and Duty Free division. The new division will become fully operational during 1989.

Divisional highlights

Outstanding contributions were made by the 155 Smoke Shops in Woolco and Woolworth stores across Canada. In 1988, we continued the renovation programme which began last year. Ten outlets were renovated and re-merchandised in the past year, and subsequent sales increases were well ahead of plan.

Specialty stores, from Vancouver to St. John's are merchandised to appeal to today's

impulse buyer. The stores emphasize our core products: confectionery, news and tobacco. These three categories, which currently account for 80% of the company's total volume, will continue to dominate sales in the coming year.

The Hotel/Airport Division enjoyed an excellent year. With 17 gift shops and six duty free stores in Canadian airports, and 94 installations in major hotels across the country, we are catering to the growing number of business and vacation travellers.

The 64 Den for Men/Au Masculin stores, located in major shopping malls across Canada, feature a wide selection of unusual and unique gift items. As expected, the Christmas selling season contributed significantly to the division's annual sales, pushing total sales for the year, on a comparable store basis, to an all-time high.

Outlook

In summary, The UCS Group had another very successful year in 1988 and is well positioned to achieve further growth and progress in the year ahead.

Involvement in the Community

Lindsay Cowell-Plain, a recipient of the Imasco Scholarship for Disabled Students, receives his degree from Concordia University Rector and Vice-Chancellor, Patrick Kenniff.

Le Maturin and Luc Michel Paysage Service, two of the many businesses that have been started with the assistance of the Montréal Job Creation Initiative.

McGill University, one of 32 Canadian universities and colleges that received financial assistance from Imasco in 1988.



As Imasco has grown and entered new areas of business over the years, so too has it continued to enlarge its support for the many communities in which it operates. All members of the Corporation are ever mindful of the beneficial influence that Imasco can have as a good corporate citizen. Through concrete actions and cash contributions, Imasco and its family of companies are helping to improve the quality of life today and in the future.

Corporate donations

In 1969 Imasco established the Corporate Donations Committee, consisting of eight members representing Imasco's head office and its three wholly owned Canadian divisions. Each year the Board of Directors establishes an annual budget for the Corporate Donations Committee which meets regularly to consider requests for assistance from organizations across Canada. In 1988 the committee considered 878 requests and contributed \$2.8 million to almost 600 organizations involved in public welfare, aid to the disadvantaged, health, education, cultural, recreational and youth activities. The bulk of contributions are made to hospitals

and universities which in 1988 received 59% of the budgeted funds.

Each of the divisions is also active in helping smaller, but no less worthy, charities at the local level. In any given year, several hundred thousand dollars are donated to local charities by Imasco's regional operations.

Canada Trust maintains its own donations programme. In 1988 Canada Trust's charitable contributions totalled \$1.4 million.

Disabled students

Cases of individual need or merit are not overlooked. Through the Imasco Scholarship Fund for Disabled Students, established in 1981, qualifying disabled students are helped to pursue university level education. The fund, which was originally endowed with \$100,000, has been increased to \$250,000 over the years. To date, a total of 86 scholarships have been awarded to 51 students.

Job Creation Initiative

The Montréal Job Creation Initiative was established in 1986 with a funding commit-

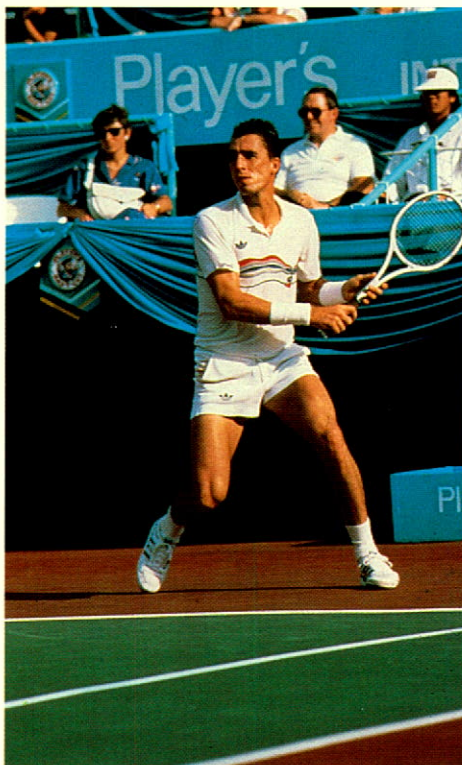


ment of \$7 million over five years. Its purpose is to help persons start or develop their own businesses, and the goal is to create 1,000 new jobs in the small business sector. Applicants for participation in the programme receive the free help and support of a team of business specialists.

The Montréal Job Creation Initiative also operates the Montréal Enterprise Centre which provides shared services and low rents to the entrepreneurs. By the end of 1988 the project had received some 2,250 enquiries and helped establish 118 new busi-

Murray Koffler signs architectural drawings for the Koffler Institute for Pharmacy Management. Shoppers Drug Mart spearheaded the fundraising for the facility which will provide pharmacists and pharmacy students with courses in much-needed business skills.

In sport, Imperial Tobacco sponsors Canadian golf championships and world class tennis, equestrian and motor racing competitions.



of some of the activities undertaken by divisions can be found in their respective divisional reports.

Support for democracy in Canada

Imasco gives money to political parties and other organizations which support the principles of a strong private business sector and democratic government. It is the position of the Corporation that it has the right, if not an obligation, to do so. In 1988 the Board of Directors approved contributions of \$116,000 to federal and provincial political parties. Imasco neither asked for, expected nor received any consideration for this money other than the satisfaction of having contributed to the democratic political process.

Employee participation

Imasco encourages employees at all levels to take an active part in community affairs. Employees are also encouraged to become members of trade and professional associations to improve their knowledge and skills. In 1988 some 600 employees participated through company-paid memberships in associations throughout North America.

nesses which have created 750 new job opportunities in the Montréal area.

Imagine campaign

In late 1988, The Canadian Centre for Philanthropy officially launched its Imagine campaign. Imagine is a national awareness programme which will encourage individual Canadians and Canadian corporations to increase their giving to charitable causes. The objective of the campaign is to generate \$4 billion of new funds for charities and non profit organizations by 1993.

Imasco, along with a number of leading corporations and foundations, provided seed money for the development of Imagine. More recently Imasco pledged an additional \$100,000 to help cover the cost of implementing the campaign.

Sponsorships

Operating divisions are also very active in sponsorship activities. Sponsorships serve to associate Imasco's many well-known trademarks with major community programmes and events across North America.



Best known to Canadians are events sponsored by Imperial Tobacco which has a long and proud history of generous support for sports and the arts in Canada. However, other divisions also have significant programmes. Hardee's has a number of important associations, among them: the Make-A-Wish Foundation, the Special Olympics, the Duke University Medical Center and car racing events. Shoppers Drug Mart is active in community sports, drug abuse and health information programmes, whereas most of the emphasis at Peoples is in the area of community health. A brief description



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Jean H. Richer, C.M.

Montréal, Québec. Director since 1976. Member of the Executive Committee, the Audit Committee and the Nominating Committee of the Board of Directors. President, Jean H. Richer Associés Ltée; Director of Central Vermont Railway, Guardian Insurance Co. of Canada. Governor of McGill University.

2 The Hon. William R. Bennett, P.C.

Westbank, British Columbia. Director since 1987. Member of the Executive Committee and the Audit Committee of the Board of Directors. Director of Teck Corporation, Pilot Laboratories Inc., Investment Dealers Association of Canada, Delaware Resources Corporation, Canadian Pacific Forest Products Limited.

3 Nan-Bowles de Gaspé Beaubien

Westmount, Québec. Director since 1987. Member of the Executive Committee and the Management Resources and Compensation Committee of the Board of Directors. Vice-Chairperson, Telemedia Corporation; Vice-President, Director and member of the Executive Committee, Telemedia Inc. Director of Campbell Soup Company Ltd., Institute for Research on Public Policy, Canadian Association of Family Enterprise, Terry Fox Humanitarian Award Committee, Children's Broadcast Institute.

4 Paul Paré, O.C.

Montréal, Québec. Director since 1964. Former Chairman and Chief Executive Officer of Imasco Limited. Member of the Executive Committee, the Audit Committee and the Nominating Committee of the Board of Directors. Director of Canadian Fund Inc., Canadian Investment Fund, Ltd., Canadian Pacific Limited, Canadian Pacific Forest Products Limited, IBM Canada Ltd., Liquid Carbonic Canada Ltd., The SNC Group, Telemedia Inc., Timminco Limited.

5 Murray Bernard Koffler, C.M.

Willowdale, Ontario. Director since 1978. Member of the Executive Committee, the Audit Committee and the Management Resources and Compensation Committee of the Board of Directors. Honorary Chairman, Shoppers Drug Mart; Chairman, The Koffler Group; Vice-President and Director, Four Seasons Hotels, Ltd. Director of The Manufacturers Life Insurance Company, Canadian Jewish News, Canadian Council for Native Business.

6 Jack A. Laughery

Rocky Mount, North Carolina. Director since 1981. Chairman, President and Chief Executive Officer, Imasco USA, Inc. Chairman and Chief Executive Officer, Hardee's Food Systems, Inc. Director of First Union National Bank Corporation, Charlotte, NC, First Union National Bank, Rocky Mount, NC, Nash County Industrial Commission, Wesleyan College.



7 Jean-Louis Mercier

Ste-Julie-de-Verchères, Québec. Director since 1980. Vice-Chairman, Imasco Limited; Chairman and Chief Executive Officer, Imperial Tobacco Limited; President and Director, Imasco Pension Fund Society.

8 Purdy Crawford

Westmount, Québec. Director since 1973. Chairman, President and Chief Executive Officer, Imasco Limited; Chairman, President and Chief Executive Officer, Imasco Enterprises Inc.; Chairman of the Executive Committee and Member of the Nominating Committee of the Board of Directors. Director of CT Financial Services Inc., Inco Limited, Dominion Textile Limited, Nova Scotia Resources Limited, Sydney Steel Corporation. Chairman of the Board of Regents, Mount Allison University.

9 Angela C. Peters

Halifax, Nova Scotia. Director since 1987. Member of the Executive Committee and the Management Resources and Compensation Committee of the Board of Directors. Director of Xerox Canada Inc., The Prudential Corporation Canada, Cobi Foods Inc.

10 David R. Bloom

Thornhill, Ontario. Director since 1983. Chairman and Chief Executive Officer, Imasco Drug Retailing Group; Chairman and Chief Executive Officer, Shoppers Drug Mart Limited. Director of CT Financial Services Inc., Canadian Foundation for the Advancement of Pharmacy, Retail Council of Canada, Canadian Junior Chamber/Jaycees, Juvenile Diabetes Foundation. Governor of Mount Sinai Hospital.

Committees of the Board

The Executive Committee meets between regular board meetings. The Board of Directors meets a minimum of five times a year and in the intervals, the Executive Committee meets to advise the Chairman, President and Chief Executive Officer on various matters, to take action where necessary and to make recommendations to the Board.

The Audit Committee meets a minimum of four times a year. The Committee reviews, and recommends for adoption by the Board of Directors, the financial statements of the Corporation; examines and recommends for payment the statements of fees of the Corporation's auditors; and reviews the adequacy of accounting control procedures.

The Management Resources and Compensation Committee reviews appointments of executive officers, supervises the succession plan for executives, monitors management human resources programmes and reviews annually the compensation of the executive directors and the fees payable to non-executive directors.

The Nominating Committee recommends candidates for the Board of Directors.

Canada

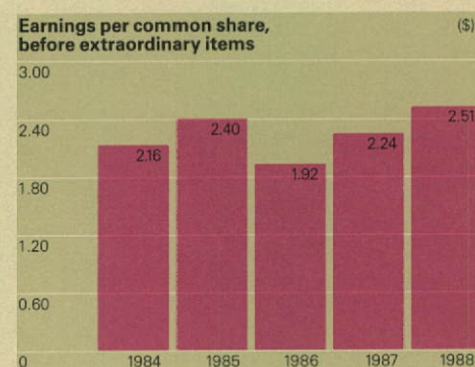
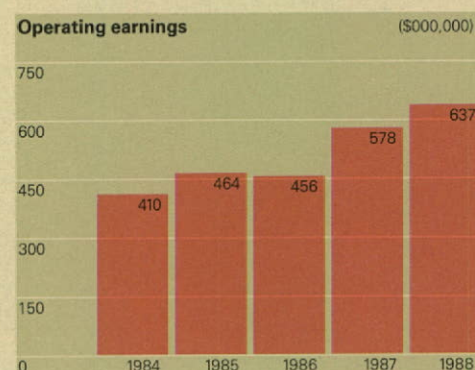
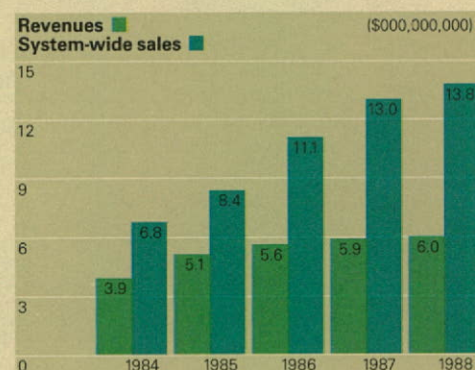
* Includes the 85 stores which were sold after year end.

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Management's Discussion and Analysis

Results of operations



The Corporation changed its fiscal year end from March 31 to December 31 effective April 1, 1987. The comments that follow pertain to the 12 months ended December 31, 1988 and are discussed in comparison with the unaudited results of operations for the 12 months ended December 31, 1987. Audited financial statements for the comparative periods covering the nine months ended December 31, 1987 and the year ended March 31, 1987 are presented commencing on page 42. To illustrate historical trends, the information contained in the graphs accompanying this discussion is presented on a 12-month basis ending December 31.

System-wide sales, consolidated revenues and earnings

System-wide sales for the year ended December 31, 1988 totalled \$13.8 billion compared with \$13.0 billion the prior year, an increase of 7%.

Consolidated revenues for the year ended December 31, 1988 were \$6.0 billion compared with \$5.9 billion the prior year, an increase of 1%. Because the Corporation has significant operations in the United States, revenues reported were adversely affected by the strengthened Canadian dollar in relation to the US dollar. In their local currency, all divisions reported revenue increases.

Operating earnings for the year were \$636.7 million, an increase of 10% over the \$578.4 million reported in 1987. The divisional results were as follows: Imperial Tobacco, up 10% to \$308.0 million; Imasco USA, down 5% to \$130.3 million; Shoppers Drug Mart, \$57.1 million, an increase of 11%; Peoples Drug Stores, an operating loss of \$8.3 million compared with the prior year operating loss of \$22.6 million; The UCS Group, up 13% to \$7.6 million. CT Financial Services' net earnings in 1988 increased 15% to \$232.0 million. As a result of CT Financial Services' performance, the equity of Imasco in the net earnings of Imasco Enterprises increased 12% to \$142.1 million in 1988. If the results of Imasco Enterprises were reported on a pre-tax basis, Imasco's total operating earnings would amount to \$829 million and CT Financial Services' contribution to operating earnings, after deducting amortization of fair value and goodwill, would total \$319 million. On this basis, the percentage contribution of each of Imasco's principal lines of business to total operating earnings in 1988 would be: financial services, 38%; tobacco, 37%; restaurants, 16%; retail drug stores, 6%; with the balance of 3% provided by The UCS Group and the remaining Genstar operations.

Interest expense for the year totalled \$217.6 million compared with \$186.8 million the previous year. In 1987 carrying charges of \$40.6 million, relating to certain former Genstar businesses held for disposal, were deferred. Following the closing of the disposal account at December 31, 1987, all amounts were expensed in 1988. Also contributing to the increased interest expense during 1988 is the higher weighted average interest rate experienced by the Corporation. The weighted average interest rate on variable rate indebtedness during 1988 was approximately 9.1% compared with approximately 8.1% in 1987. During 1988 the Corporation refinanced \$558.5 million of variable rate indebtedness with fixed rate indebtedness carrying slightly higher rates of interest. The increase in interest expense occurred despite a reduction in total debt during 1988. Total debt, including long term debt, capital lease obligations and bank and other short term loans, net of cash and short term investments, amounted to \$2.1 billion as at December 31, 1988 compared with \$2.5 billion at December 31, 1987. The net debt reduction is partly attributable to the two Hardee's sale and leaseback transactions completed for net proceeds of \$321 million. The first transaction completed in February raised \$235 million and involved 279 restaurant properties; the second transaction, completed in late December, raised net proceeds of \$86 million and involved 101 restaurant properties. Interest coverage for 1988 was 2.8 compared with 2.9 for 1987.

The effective tax rate of the Corporation for 1988, excluding equity earnings, was reduced to 30.7% from 33.7% the previous year. This reduction reflects the impact of lower corporate tax rates arising from tax reform in Canada and the United States as well as a change in the geographic and industrial mix of earnings to jurisdictions with lower rates of corporate taxation.

(continued)

Management's Discussion and Analysis

Results of operations (continued)

Earnings before extraordinary items were \$314.3 million in 1988 compared with \$282.7 million in 1987, an increase of 11%. Earnings per common share before extraordinary items were \$2.51 for the year ended December 31, 1988 compared with \$2.24 in 1987, an increase of 12%. The Corporation has undertaken a programme to reorganize the operations of Peoples Drug Stores and to dispose of the operations of Grisanti, Inc. As a result, the Corporation has recorded in 1988 an extraordinary charge in the amount of \$110.0 million (Note 13, page 62) reducing net earnings to \$204.3 million. This extraordinary charge amounts to \$0.92 per common share.

The reorganization plan for Peoples Drug Stores includes the planned disposal of approximately 240 stores, principally in Indiana and Ohio, and the sale of the 85 store Reed Drug Stores division which was announced in January 1989. With the remaining stores located in its strongest markets, it is expected that Peoples' earnings will improve in the future. Proceeds from disposals will be used to repay indebtedness and will consequently reduce future interest charges and improve cash flow.

The reported operating earnings from U.S. divisions were adversely affected by the strengthened Canadian dollar. Conversely, to the extent that the Corporation incurs interest expense and income taxes in US dollars, the stronger Canadian dollar improved net earnings. The impact may be illustrated by comparing the average exchange rate of approximately US \$1 = Cdn \$1.23 during 1988 with US \$1 = Cdn \$1.33 during 1987. Had there been no change in the Canadian/US exchange rate during 1988, the Corporation's earnings before extraordinary items would have been approximately \$5 million higher than reported.

Imperial Tobacco

Revenues for the year ended December 31, 1988 increased by 5% to \$2.0 billion. Revenues for 1988, excluding sales and excise taxes, totalled \$862.0 million, an increase of 6%. Unit shipments were slightly higher at 28.7 billion cigarettes. Based upon Statistics Canada figures, industry shipments declined by 3% during 1988 and Imperial Tobacco's share of the domestic cigarette market increased by 1.8 share points to 56.2%.

Imperial Tobacco's operating earnings for 1988 were \$308.0 million, an increase of 10% over 1987 operating earnings. Operating earnings increased in 1988 primarily due to improved revenues and sales mix and productivity improvements.

The Canadian government passed Bill C-51, The Tobacco Products Control Act, with effect on January 1, 1989. The Act will gradually prohibit the advertising and promotion and will govern the labelling and monitoring of tobacco products. Imperial Tobacco and other Canadian tobacco manufacturers have challenged the validity of the Act in various jurisdictions. The Act is not expected to have a negative impact on revenues and earnings in the short or medium term. However, over the long term it is uncertain what the impact of this legislation will be on Imperial Tobacco's earnings.

Imasco USA

Revenues during the year ended December 31, 1988 decreased by 2% to \$1.8 billion. Expressed in US dollars, Imasco USA's revenues increased by 5%. The increase resulted from the net addition of 75 company-owned restaurants, increased revenues from existing restaurants and increased service and licence fees. Revenues of Fast Food Merchandisers, the manufacturing and distribution subsidiary of Imasco USA, decreased due to the loss of business of a major restaurant licensee. The number of restaurants in the system increased during the year by 194, bringing the total to 3,151. Despite the fact that Hardee's is not a national chain, its share of the Quick Sandwich Restaurant category customer traffic has grown to 9.9% from 9.6% the previous year. Average restaurant sales volume increased to US \$920,000 from US \$877,000 due to both price and volume increases.

(continued)

Management's Discussion and Analysis

Results of operations (continued)

Operating earnings for the year ended December 31, 1988 decreased 5% to \$130.3 million; however, in US dollars operating earnings increased 3%. The real estate sale and leaseback transaction of February 1988 resulted in increased occupancy costs of approximately US \$13 million. The cash generated from this transaction reduced interest charges which compensated for these higher occupancy costs. Expressed in US dollars and adjusted for the sale and leaseback transaction, operating earnings increased by 18% during 1988. This increase was generated through improved revenues and gross margins and productivity improvements. A second real estate sale and leaseback transaction was completed in late December and had no impact on 1988 operating earnings. This second transaction will reduce 1989 operating earnings by approximately US \$6.5 million and interest expense by a similar amount.

Shoppers Drug Mart

Revenues for the year ended December 31, 1988 increased 14% to \$194.9 million with increases reported in all major revenue categories, i.e. service fees, sales of company-owned stores and equipment rentals. The number of retail locations in the Shoppers Drug Mart network totalled 613 at December 31, 1988, a net increase of 27 during the year. Shoppers Drug Mart/Pharmaprix comparable store sales increased by 10.0% and comparable prescription sales increased 15.3%. This is attributable to increases in both customer traffic and the average sale per customer.

Operating earnings increased by 11% during the year to \$57.1 million. This increase is primarily due to revenue increases and productivity improvements with store gross margins about the same as the previous year.

The long term prospects for the Super X division, acquired in July 1986, were considered more favourable if the stores were converted to the Shoppers Drug Mart format. The conversion took place in mid-1988 and resulted in strong comparable store sales increases and improved profitability.

Peoples Drug Stores

The recovery programme at Peoples continued during 1988 but the results were below expectations. Revenues in Canadian dollars were unchanged at \$1.8 billion but expressed in US dollars increased 7% to US \$1.5 billion. On a comparable store basis, sales increased 5.9% and comparable prescription sales increased 14.8%. Prescription sales represent approximately 34% of total sales. There were 829 stores at December 31, 1988, a net increase of 10 during the year.

Peoples Drug Stores reported an operating loss of \$8.3 million compared with an operating loss of \$22.6 million in 1987. On a pro forma basis, excluding the impact of the stores to be disposed of, the remaining operations would have recorded a modest profit in 1988.

The UCS Group

Revenues for the year ended December 31, 1988 increased by 9% to \$256.6 million. Tobacco sales, which made up approximately 55% of revenues, continued to show dollar volume increases. The number of retail locations increased by a net of one to 525. Operating earnings for the year were \$7.6 million, up 13% from last year.

Imasco Enterprises Inc.

The Corporation's equity in the net earnings of Imasco Enterprises Inc. for the year ended December 31, 1988 was \$142.1 million compared with \$126.5 million last year.

CT Financial Services Inc., the principal operating subsidiary of Imasco Enterprises Inc., recorded net earnings of \$232.0 million in 1988, an increase of 15% over 1987 net earnings of

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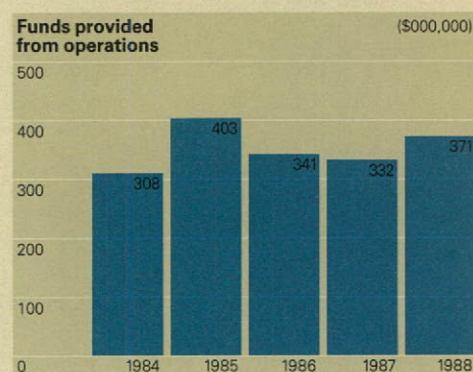
Management's Discussion and Analysis

Results of operations (continued)

\$201.0 million. CT Financial Services Inc.'s net earnings included the impact of two non-recurring events: the sale of an equity position in RoyNat Inc. and the settlement of the Dome Petroleum loan. These two events contributed approximately \$30 million to net earnings. Net earnings for 1988 expressed as an annualized return on average corporate assets represented \$0.85 per \$100 compared with \$0.80 in 1987. On a fully diluted basis the return on average common shareholders' equity was 19.0% in 1988 compared with 19.4% the previous year.

As discussed in Notes 1 and 5 to the consolidated financial statements, the Genstar disposal programme was considered complete at December 31, 1987. Commencing January 1, 1988 the results of operations of the assets previously held for disposal are included in the consolidated net earnings of Imasco Enterprises Inc.

Financial condition



* Long term debt as a % of long term debt and total equity.

Funds provided from operations

Working capital provided from operations during 1988 amounted to \$371.0 million compared with \$331.9 million last year. Cash and cash equivalents provided from operating activities during the year ended December 31, 1988 amounted to \$429.3 million compared with \$353.4 million in 1987, reflecting improved earnings of Imasco Limited and increased cash received from Imasco Enterprises Inc. Cash and cash equivalents provided from operating activities include \$61.9 million received from Imasco Enterprises Inc. operations. The principal sources of cash for Imasco Enterprises Inc. are dividend income from its investment in CT Financial Services Inc. and from the operations of Genstar Development Company. In 1988 Imasco Enterprises Inc. received \$75.5 million in dividends from CT Financial Services Inc. compared with \$61.0 million received in 1987.

Capital expenditures

Capital expenditures during the year ended December 31, 1988 totalled \$303.9 million, a slight decrease from 1987 capital expenditures of \$306.3 million. Capital expenditures by industry segment for 1988 are listed on page 65.

Imasco USA's capital expenditures represented 69% of the Corporation's total and were primarily directed towards restaurant remodellings and openings. The sale and leaseback transaction completed in February 1988 enabled Imasco USA to finance its capital expenditure programme internally. Capital expenditures at Shoppers Drug Mart, Peoples Drug Stores and The UCS Group were also primarily for store remodellings and openings while Imperial Tobacco's capital expenditures were primarily productivity oriented. During 1989 it is expected that the level of capital spending will be approximately \$225 million. Both capital expenditure and dividend requirements for 1989 are expected to be funded internally through operations, with sufficient funds remaining to allow for some debt repayment.

Liquidity and capital resources

Cash and cash equivalents increased during the year to \$30.0 million at December 31, 1988 from a deficiency of \$64.9 million last year. Working capital at December 31, 1988 was \$566.4 million with a ratio of current assets to current liabilities of 1.7:1. This compares with working capital of \$644.5 million at December 31, 1987 and the same current ratio. The Corporation continues to maintain committed credit facilities with various financial institutions which make available significant financial resources. At December 31, 1988 the Corporation had available unused committed credit facilities of approximately \$1.3 billion.

In February 1988 the Corporation entered into agreements pursuant to which it established a US \$250 million note issuance facility with a syndicate of financial institutions in the Eurodollar market. This facility provides the Corporation with greater flexibility in its access to the financial markets. As at December 31, 1988, US \$92 million was issued under this facility.

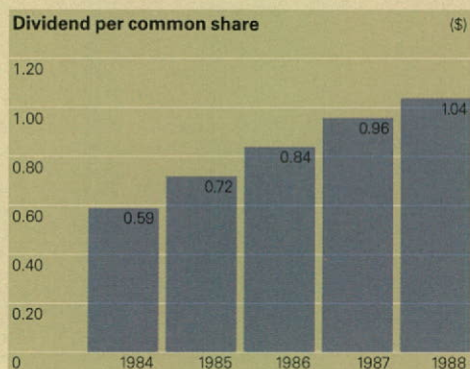
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Management's Discussion and Analysis

Financial condition (continued)

As a result of the 1986 acquisition of Genstar Corporation, the Corporation is carrying higher levels of indebtedness and its leverage is higher than its historical norms. At December 31, 1988 the long term debt of the Corporation was \$2.1 billion and the ratio of long term debt to total capital was 48.3%. This compares with long term debt of \$2.4 billion and a ratio of long term debt to total capital of 51.8% at December 31, 1987.

During 1988, as part of its continuing programme, the Corporation fixed the interest rate on \$558.5 million of indebtedness through the following refinancings: the issue of \$150 million aggregate principal amount of 10½% debentures due 1998; the issue of \$100 million of 10½% Eurodollar notes due 1993; the issue of \$198.9 million under a medium term note programme; and \$109.6 million under two interest rate swap transactions. As a result of these refinancings and the reduction in long term debt, fixed rate debt at December 31, 1988 accounted for approximately 54% of the total long term debt compared with 25% the previous year.



Dividends

Total dividends paid in 1988 amounted to \$139.1 million compared with \$129.5 million in 1987. During 1988 the dividend rate per common share was \$1.04 compared with \$0.96 the previous year, an increase of 8%. The 1988 per common share dividend represented approximately 46% of 1987 earnings per common share before extraordinary items compared with a 50% ratio in the previous year. Based on the anticipated annual dividend rate of \$1.12 per common share, total dividend payments expected for 1989 approximate \$148 million. The anticipated common dividend rate for 1989 represents 45% of 1988 earnings per common share before extraordinary items.

Management's Responsibility for Consolidated Financial Statements

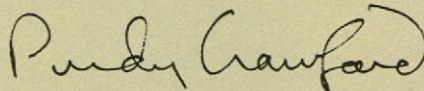
The accompanying consolidated financial statements of Imasco Limited and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

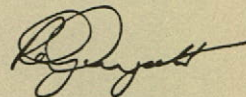
Management of Imasco and its subsidiaries in fulfilling their responsibilities developed and continue to maintain a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting solely of non-executive directors. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The shareholders' auditors have full access to the Audit Committee, with and without the presence of management.

The financial statements have been examined by Deloitte Haskins & Sells, Chartered Accountants, and their report follows.



Purdy Crawford
Chairman, President and
Chief Executive Officer



Raymond E. Guyatt, C.A.
Executive Vice-President,
Chief Financial Officer and Treasurer

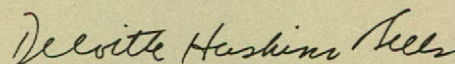
February 7, 1989

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheets of Imasco Limited as at December 31, 1988, December 31, 1987 and March 31, 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for the year ended December 31, 1988, the nine months ended December 31, 1987 and the year ended March 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988, December 31, 1987 and March 31, 1987 and the results of its operations and the changes in its financial position for the year ended December 31, 1988, the nine months ended December 31, 1987 and the year ended March 31, 1987 in accordance with generally accepted accounting principles applied, except for the change effective April 1, 1987, with which we concur, in the method of accounting for retirement benefits as explained in Note 10 to the consolidated financial statements, on a consistent basis.



Chartered Accountants
Montréal, Canada

February 7, 1989

Summary of Accounting Policies

	The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the policies listed below. The significant accounting policies of the Corporation's non-consolidated financial services subsidiary, Imasco Enterprises Inc., are summarized on page 51.
Change in fiscal year end	Effective April 1, 1987 the Corporation changed its fiscal year end from March 31 to December 31. Consequently, the financial statements that follow are presented in comparison with the previously reported results of operations for the nine months ended December 31, 1987 and for the year ended March 31, 1987. Results of operations for the nine months are not necessarily indicative of operations for a full year. This change resulted in a fiscal year end concurrent with that of Imasco Enterprises Inc.
Basis of presentation	The consolidated financial statements include the accounts of the Corporation and its subsidiaries except Imasco Enterprises Inc. and its subsidiaries. Imasco Enterprises Inc., a financial services company, is accounted for by the equity method because its financial structure and operations differ significantly from the Corporation's other businesses. Acquisitions are accounted for by the purchase method of accounting and the results of operations of acquired businesses are included from their effective dates of acquisition. Goodwill and related costs arising from acquisitions are capitalized and amortized on a straight-line basis over their estimated lives not exceeding 40 years.
Licence and service fee income	Initial licence fee (Restaurant): recognized as income upon the opening of a restaurant. Continuing service fees (Restaurant and Shoppers Drug Mart): recognized as income as a variable percentage of sales of licensed restaurants and associate drug stores.
Inventories	Inventories are valued at the lower of cost and net realizable value. Cost is determined substantially as follows: - Tobacco: average cost - Restaurant: first-in, first-out - Drug store: first-in, first-out - The UCS Group: retail inventory method
Investments and receivables	Investments are stated at cost and are written down to reflect impairments in value which are other than temporary. Receivables are stated at their estimated net realizable value.
Deferred charges	Deferred charges are stated at cost less amortization accumulated on a straight-line basis. The amortization periods for the principal elements of deferred charges are as follows: - Restaurant and retail leases acquired: term of the lease. - Financing costs: term of the issue to which they relate. - Promotion and advertising costs: over the life of the related contract ranging from two to 20 years. - Drug store opening costs (Shoppers Drug Mart – associate stores): recovered from Pharmacist Associates over three years, commencing in the thirteenth month after opening. - Restaurant, other drug store and retail store opening costs: first year of operation. - Software development costs: over a period not to exceed 23 months except for certain deferred software development costs, consisting primarily of software acquired in the Peoples Drug Stores and Rea and Derick acquisitions as well as software costs associated with the development of the Fredericksburg distribution centre in the Peoples Drug Stores segment which are amortized over their estimated useful lives of three to seven years. - Other deferred charges: one to 17 years.
Property, plant and equipment	Property, plant and equipment are accounted for at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 20 to 45 years for buildings and from two to 20 years for equipment. Leasehold improvements and property under capital leases are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets and the term of the lease.

Imasco Limited
For the year ended December 31, 1988,
the nine months ended December 31, 1987
and the year ended March 31, 1987

**Consolidated Statement
of Earnings**

	Year ended December 31 1988	Nine months ended December 31 1987	Year ended March 31 1987
Thousands of dollars, except "Earnings per common share"			
Revenues	6,000,554	4,613,387	5,625,074
Sales and excise taxes	1,156,052	850,762	1,058,867
	<u>4,844,502</u>	<u>3,762,625</u>	<u>4,566,207</u>
Operating costs	4,349,858	3,369,065	4,206,667
	<u>494,644</u>	<u>393,560</u>	<u>359,540</u>
Equity in net earnings of			
Imasco Enterprises Inc. (Note 5)	142,051	100,715	88,620
Operating earnings	636,695	494,275	448,160
Corporate expense	28,467	23,060	23,425
Interest expense (Note 11)	217,646	148,923	156,788
Earnings before income taxes	390,582	322,292	267,947
Income taxes (Note 12)	76,272	77,263	55,301
Earnings before extraordinary items	314,310	245,029	212,646
Extraordinary items (Note 13)	(110,000)	—	(29,079)
Net earnings	204,310	245,029	183,567
Earnings per common share (Note 9)			
Before extraordinary items	\$2.51	\$1.96	\$1.73
After extraordinary items	\$1.59	\$1.96	\$1.48

**Consolidated Statement
of Retained Earnings**

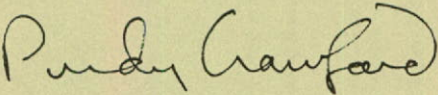
	Year ended December 31 1988	Nine months ended December 31 1987	Year ended March 31 1987
Thousands of dollars			
Beginning of period	1,233,859	1,086,448	1,024,229
Net earnings	204,310	245,029	183,567
Dividends (Note 14)	(139,056)	(97,044)	(112,247)
Costs of issuing shares, net of tax	—	—	(9,101)
Costs of issuing securities by a non-consolidated subsidiary, net of tax	—	(574)	—
End of period	1,299,113	1,233,859	1,086,448

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

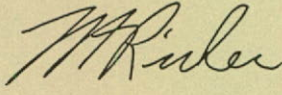
Consolidated Balance Sheet		December 31 1988	December 31 1987	March 31 1987
		Thousands of dollars		
Current assets	Cash and short term investments	132,032	207,702	40,229
	Accounts and notes receivable	282,745	325,261	264,773
	Inventories	900,757	980,471	970,888
	Prepaid expenses	48,135	28,142	29,481
	Total current assets	1,363,669	1,541,576	1,305,371
Current liabilities	Bank and other short term loans	102,032	272,555	237,429
	Accounts payable and accrued liabilities	612,028	504,338	492,360
	Income, excise and other taxes	68,422	98,261	49,282
	Current portion of long term debt and capital lease obligations	14,782	21,892	30,485
	Total current liabilities	797,264	897,046	809,556
	Working capital	566,405	644,530	495,815
Other assets	Investments and receivables (Note 2)	103,921	91,934	92,076
	Deferred charges (Note 3)	82,646	75,861	66,475
	Property, plant and equipment (Note 4)	942,448	1,094,550	970,763
	Goodwill	162,221	239,193	245,321
	Investment in Imasco Enterprises Inc. (Note 5)	2,655,408	2,613,497	2,718,151
	Total other assets	3,946,644	4,115,035	4,092,786
	Excess of assets over current liabilities	4,513,049	4,759,565	4,588,601
Other liabilities	Long term debt (Note 6)	2,116,029	2,420,880	2,410,978
	Capital lease obligations (Note 7)	27,576	33,190	21,465
	Deferred income taxes	15,045	51,260	48,195
	Total other liabilities	2,158,650	2,505,330	2,480,638
	Excess of assets over liabilities	2,354,399	2,254,235	2,107,963
Deferred credits	Deferred gain on sale and leaseback of restaurant properties (Note 8)	93,357	—	—
	Excess of assets over liabilities and deferred credits	2,261,042	2,254,235	2,107,963
Shareholders' equity	Capital stock (Note 9)	1,004,398	1,004,398	1,002,857
	Unrealized (loss) gain on foreign currency translation	(42,469)	15,978	18,658
	Retained earnings	1,299,113	1,233,859	1,086,448
	Total shareholders' equity	2,261,042	2,254,235	2,107,963

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Approved by the Board,



Purdy Crawford, Director



Jean H. Richer, Director

Imasco Limited
For the year ended December 31, 1988,
the nine months ended December 31, 1987
and the year ended March 31, 1987

**Consolidated Statement
of Changes in Financial Position**

		Year ended December 31 1988	Nine months ended December 31 1987	Year ended March 31 1987
		Thousands of dollars		
Operating activities	Earnings before extraordinary items	314,310	245,029	212,646
	Items not affecting working capital			
	Equity earnings not received in cash	(80,167)	(99,565)	(76,218)
	Depreciation and amortization	158,465	118,919	145,216
	Other items	(21,627)	16,158	(940)
	Working capital provided from operations	370,981	280,541	280,704
	Change in non-cash operating working capital	66,758	(7,110)	5,955
	Unrealized foreign exchange	(8,445)	1,858	7,235
	Total cash from operating activities	429,294	275,289	293,894
Financing activities	Issue of long term debt	450,395	294,609	3,261,071
	Repayment of long term debt	(701,898)	(289,818)	(1,408,751)
	Issue of shares, net of issue costs	—	1,541	539,998
	Dividend payments	(139,056)	(97,044)	(112,247)
	Change in capital lease obligations	(2,419)	8,950	(4,381)
	Total cash (used for) from financing activities	(392,978)	(81,762)	2,275,690
Investing activities	Business acquisitions	—	(22,254)	(2,605,032)
	Other changes in the			
	investment in Imasco Enterprises Inc.	38,256	204,219	(31,856)
	Extraordinary items	—	—	(2,393)
	Purchases of property, plant and equipment	(303,856)	(238,911)	(233,860)
	Disposals of property, plant and equipment	361,856	20,056	14,436
	Deferred charges	(19,558)	(20,180)	(22,328)
	Change in investments and receivables	(18,161)	(4,110)	(12,248)
	Total cash from (used for) investing activities	58,537	(61,180)	(2,893,281)
Cash and cash equivalents	From operating activities	429,294	275,289	293,894
	From (used for) financing activities	(392,978)	(81,762)	2,275,690
	From (used for) investing activities	58,537	(61,180)	(2,893,281)
	Increase (decrease) for period	94,853	132,347	(323,697)
	Beginning of period	(64,853)	(197,200)	126,497
	End of period	30,000	(64,853)	(197,200)

Cash and cash equivalents include cash and short term investments, net of bank and other short term loans.

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Business acquisitions

On March 24, 1986 the Corporation, through a wholly owned subsidiary, Imasco Enterprises Inc., commenced an offer to purchase all of the outstanding common shares of Genstar Corporation. The cost of the acquisition was approximately \$2.6 billion and was financed by debt and equity issues. As at May 1, 1986, the effective date of acquisition, Genstar Corporation was a diversified company which, directly or through subsidiaries, provided a range of financial services, manufactured building materials, provided specialized industrial services and was active in land and real estate development.

In acquiring Genstar Corporation, the Corporation's objective was to obtain ownership of Genstar Corporation's 98.9% interest in Canada Trustco Mortgage Company. All of Genstar Corporation's other assets were evaluated for their relevance to the Corporation's long term objectives. These assets were designated as "net assets held for disposal" and were assigned an initial value of \$800 million representing the estimated proceeds expected to result from their disposal, net of debt and income taxes.

At December 31, 1987 the disposal programme was considered complete and the remaining Genstar assets and liabilities were consolidated in the balance sheet of Imasco Enterprises Inc. These assets and liabilities consisted primarily of Genstar Development Company (a Canadian land development operation), Genstar Mortgage Corporation (a U.S. mortgage servicing operation), a one-third limited partnership interest in Sutter Hill Ventures (a U.S. partnership which invests in new or emerging high technology companies), a portfolio of U.S. venture capital investments and certain other assets and liabilities. These assets and liabilities were, in the aggregate, assigned a value of \$150,027,000, including \$30 million allocated to intangibles. Net cash proceeds received by the Corporation from the disposal programme amounted to \$231,973,000. The excess of the initial estimated net proceeds of \$800 million over the combined value of remaining net assets and cash proceeds received, totalled \$418 million. This amount was allocated to the investment in CT Financial Services Inc., the new parent company of Canada Trustco Mortgage Company, as intangibles.

Commencing January 1, 1988 the results of operations of these net assets previously designated as being held for disposal and the associated carrying charges were included in the net earnings of the Corporation.

(continued)

Notes to the Consolidated Financial Statements

1. Business acquisitions (continued)

Details of the acquisition, which has been accounted for by the purchase method of accounting, as originally reported and as subsequently revised upon completion of the disposal programme at December 31, 1987, were as follows:

	Revised allocation	Allocation of net assets held for disposal	Original allocation
Assets at assigned values			
Cash and short term notes	3,019,750	128,503	2,891,247
Securities	4,151,927	170,120	3,981,807
Loans	15,348,594	36,174	15,312,420
Real estate investment properties	407,267	132,224	275,043
Property and equipment	156,130	3,548	152,582
Other	540,074	168,118	371,956
Intangibles	1,664,942	448,000	1,216,942
Net assets held for disposal	—	(800,000)	800,000
Net proceeds from disposals	231,973	231,973	—
	<u>25,520,657</u>	<u>518,660</u>	<u>25,001,997</u>
Liabilities at assigned values			
Deposits	21,425,760	—	21,425,760
Other	1,076,905	518,660	558,245
Minority interest	407,916	—	407,916
	<u>22,910,581</u>	<u>518,660</u>	<u>22,391,921</u>
Total cash consideration	<u>2,610,076</u>	<u>—</u>	<u>2,610,076</u>

Intangibles consist of identifiable and residual components. Purchase price allocations to identifiable intangibles at December 31, 1987 totalled \$283,500,000 and represented the values assigned to branch and customer network in place, fiduciary lines of business, real estate brokerage operations and credit card operations, which were in excess of their underlying tangible net asset value. The purchase price allocation to residual intangibles at December 31, 1987, representing the excess of the purchase price over the amounts allocated to identifiable net assets, totalled \$1,381,442,000 (original allocation – \$933,442,000). The Corporation's investment in Imasco Enterprises Inc. is outlined in Note 5.

During the nine months ended December 31, 1987 the Restaurant segment acquired a chain of 19 restaurants for a cash consideration of \$22,254,000, net of cash acquired.

Shoppers Drug Mart and The UCS Group acquired businesses during the year ended March 31, 1987 for a total cash consideration of \$17,391,000, including cash deficiency acquired.

Notes to the Consolidated Financial Statements

2. Investments and receivables

	December 31 1988	December 31 1987	March 31 1987
Notes receivable – restaurant licensees and drug store associates	50,468	59,180	59,476
Real estate partnership (Note 8)	19,090	–	–
Ulster Petroleums Ltd. and predecessor investments	4,959	11,442	12,945
Other	29,404	21,312	19,655
	103,921	91,934	92,076

3. Deferred charges

	December 31 1988	December 31 1987	March 31 1987
Cost of leases acquired and other acquisition costs	40,782	32,119	22,963
Financing costs	10,298	8,045	9,389
Promotion and advertising costs	9,981	10,341	6,913
Costs of opening facilities	6,536	7,565	7,557
Software development costs	5,132	8,292	10,432
Other	9,917	9,499	9,221
	82,646	75,861	66,475

Amortization of deferred charges amounted to \$12,110,000 during the year ended December 31, 1988 (December 31, 1987– \$11,234,000; March 31, 1987– \$12,327,000).

4. Property, plant and equipment

	December 31 1988	December 31 1987	March 31 1987
Land	52,491	121,435	101,496
Buildings	242,235	351,415	299,262
Equipment	822,233	755,854	677,002
Leasehold improvements	415,532	417,036	392,282
Property under capital leases	43,611	47,897	35,051
	1,576,102	1,693,637	1,505,093
Accumulated depreciation and amortization	633,654	599,087	534,330
	942,448	1,094,550	970,763

Depreciation and amortization expense on property, plant and equipment excluding property under capital leases amounted to \$137,939,000 during the year ended December 31, 1988 (December 31, 1987– \$100,774,000; March 31, 1987– \$123,650,000). Amortization expense on property under capital leases amounted to \$1,585,000 during the year ended December 31, 1988 (December 31, 1987– \$1,774,000; March 31, 1987– \$2,352,000). Accumulated amortization on property under capital leases amounted to \$22,134,000 at December 31, 1988 (December 31, 1987– \$22,849,000; March 31, 1987– \$22,565,000).

Imasco Limited
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the nine months ended December 31, 1987
and the year ended March 31, 1987

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc.

Imasco Enterprises Inc. is composed primarily of the operations of CT Financial Services Inc. and the other remaining assets and operations of the former Genstar Corporation. The Corporation accounts for the results of Imasco Enterprises Inc. by the equity method because its financial structure and operations differ significantly from the Corporation's other businesses.

The following summary presents the condensed consolidated statements of earnings of Imasco Enterprises Inc. for the year ended December 31, 1988, the nine months ended December 31, 1987 and the period from incorporation, March 19, 1986 to March 31, 1987 and the condensed consolidated balance sheets as at December 31, 1988, December 31, 1987 and March 31, 1987. The March 31, 1987 comparative amounts presented in these condensed consolidated financial statements were prepared to correspond with the previous fiscal year end of Imasco Limited and are unaudited. Audited financial statements for Imasco Enterprises Inc. have been prepared as at December 31 since incorporation. Notes to the condensed consolidated financial statements follow this summary.

Condensed Consolidated Statement of Earnings	Year ended December 31 1988	Nine months ended December 31 1987	Period ended March 31 1987
Revenues			
Investment income	2,747,683	1,822,381	2,091,191
Fees, commissions and other revenues	625,544	385,836	374,773
Interest income on advances to affiliates	84,128	10,998	-
	<u>3,457,355</u>	<u>2,219,215</u>	<u>2,465,964</u>
Expenses			
Interest on customer deposits	2,093,155	1,381,555	1,622,993
Other	976,160	623,042	687,135
	<u>3,069,315</u>	<u>2,004,597</u>	<u>2,310,128</u>
Earnings before income taxes and minority interest	388,040	214,618	155,836
Income taxes	145,184	70,765	28,938
Minority interest	46,804	34,342	36,281
Net earnings	<u>196,052</u>	<u>109,511</u>	<u>90,617</u>

(continued)

Imasco Limited
For the year ended December 31, 1988,
the nine months ended December 31, 1987
and the year ended March 31, 1987

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc. (continued)	Condensed Consolidated Balance Sheet	December 31 1988	December 31 1987	March 31 1987
	Assets			
	Cash and short term notes	2,223,186	1,463,094	1,113,610
	Securities	3,987,175	4,195,232	5,455,169
	Loans	22,701,254	19,712,335	18,004,800
	Real estate investment properties	620,026	564,639	341,022
	Advances to affiliates	709,334	775,055	—
	Property, equipment and other assets	398,339	405,488	226,041
	Net assets held for disposal	—	—	800,000
	Intangibles	1,480,521	1,520,537	1,101,708
		<u>32,119,835</u>	<u>28,636,380</u>	<u>27,042,350</u>
	Liabilities, minority interest and shareholders' equity			
	Liabilities			
	Deposits	27,431,081	23,996,661	23,566,023
	Notes, mortgages and other	877,702	807,306	306,320
	Advances from affiliates	—	3,133	7,865
	Minority interest	511,648	511,376	509,579
	Shareholders' equity	3,299,404	3,317,904	2,652,563
		<u>32,119,835</u>	<u>28,636,380</u>	<u>27,042,350</u>

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.

A. Incorporation

Imasco Enterprises Inc., an indirectly wholly owned subsidiary of Imasco Limited, was incorporated under the Canada Business Corporations Act on March 19, 1986. The comparative amounts presented for the period ended March 31, 1987 include transactions from that date.

B. Reorganization

During the nine months ended December 31, 1987 Imasco Enterprises Inc., through its wholly owned subsidiary Imasco Financial Corporation, exchanged its shareholding in Canada Trustco Mortgage Company for shares in CT Financial Services Inc., the new parent company of Canada Trustco Mortgage Company.

(continued)

Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc. (continued)

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
(continued)

C. Summary of significant accounting policies

The condensed consolidated financial statements of Imasco Enterprises Inc. have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies.

a. Basis of presentation

The condensed consolidated financial statements for the year ended December 31, 1988 include the accounts of Imasco Enterprises Inc. and its subsidiaries. Prior to December 31, 1987 Imasco Enterprises Inc. had designated certain assets and liabilities as being held for disposal. These assets and liabilities were recorded as "net assets held for disposal" and were carried at their estimated net realizable value. Earnings and carrying charges resulting from these assets and liabilities were not recorded in the condensed consolidated statement of earnings. Effective December 31, 1987 the "net assets held for disposal" account was eliminated and the remaining assets and liabilities were consolidated in the condensed balance sheet. Commencing January 1, 1988 the results of operations and associated carrying charges are recorded in the condensed consolidated statement of earnings. The assets and liabilities remaining at December 31, 1988, which were previously accounted for as "net assets held for disposal", include: Genstar Development Company, Genstar Mortgage Corporation, a one-third limited partnership interest in Sutter Hill Ventures, a portfolio of venture capital investments and certain other assets and liabilities. The period ended March 31, 1987 includes CT Financial Services Inc.'s contribution for the 11 months commencing May 1, 1986, the effective date of acquisition.

Acquisitions are accounted for by the purchase method of accounting. Intangibles arising from acquisitions are capitalized and amortized on a straight-line basis over their estimated lives not exceeding 40 years.

b. Securities

Bonds and debentures are stated at amortized cost plus accrued interest. Stocks, other than debt substitutes, are stated at cost plus dividends receivable. Where applicable, securities are adjusted to recognize permanent impairment in the underlying value. Debt substitutes are stated at cost plus dividends receivable less provisions established to recognize diminution in market value.

c. Loans

Mortgages are stated at cost, which includes amounts advanced, interest capitalized and accrued and other charges, less repayments and unamortized mortgage discounts. Interest income is accrued on a daily basis and mortgage discounts are amortized over the term of the mortgage. Corporate term, financial institutions and consumer and collateral loans are stated at cost, which includes amounts advanced and interest accrued on a daily basis, less repayments.

Receivables under equipment leases are carried at gross rentals receivable net of unearned income. Unearned income, the difference between total rentals receivable and the cost of equipment leased, is reflected in earnings over the lease term to yield a constant rate of return on the lease investment. Any gains resulting from the residual values of leased equipment are reflected in earnings only when realized. Earned income is accrued on a daily basis and recognized accordingly.

(continued)

Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc. (continued)	Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc. (continued)
	d. Real estate investment properties Properties held for development and resale are carried at the lower of cost less accumulated depreciation and estimated net realizable value while properties held as investments are carried at cost less accumulated depreciation. Cost includes all direct costs of development and construction including carrying costs such as interest, property taxes and net operating costs incurred during the development phase. Administrative overhead expenses are not capitalized. Income is recognized on the sale of properties held for development and resale when all material conditions of the agreement have been fulfilled, a cash down payment equal to at least 15% of the sale price has been received, and in management's judgment the purchaser has the financial resources to complete the transaction. Rental income is recognized on investment properties commencing with the month during which a predetermined level of occupancy is attained subject to a reasonable maximum lease achievement period. Prior to such time net operating costs are capitalized as part of development and construction costs. Depreciation on buildings is provided on a 5%, 40-year sinking fund basis. Real estate acquired in settlement of loans is stated at a value which does not exceed estimated realizable value. e. Non-performing investments Included in securities, loans and real estate investment properties are non-performing investments. They consist of securities on which interest or preferred dividend payments have been suspended, delinquent loans and loans on which a rate reduction has been negotiated. In addition, management may, at any time, classify a loan as non-performing if there is evidence of deterioration in the borrower's financial condition. Once loans are classified as non-performing, revenue is taken into earnings only as collected except in those instances where experience demonstrates it is virtually certain that accrued interest will be collected. f. Allowance for investment losses Securities, loans and real estate investment properties are reduced by an allowance for investment losses where applicable. The allowance for investment losses is calculated in accordance with the loan loss provisioning guidelines issued to chartered banks by the Office of the Federal Superintendent of Financial Institutions. This allowance consists of two parts: a specific allowance for individual investments to reduce book value to estimated realizable value and a general allowance based on a historical five-year net loss experience ratio for each of mortgage, corporate term, financial institutions, consumer and collateral loans and economic conditions and other factors which in management's judgment deserve recognition. The determination of the allowance for investment losses by CT Financial Services Inc., in accordance with the loan loss provisioning guidelines rather than the prior year's basis of coverage of non-performing investments by the allowance for investment losses from a minimum 1.0 to a maximum of 1.4 times, unless extenuating circumstances existed, is a change in accounting estimate. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. Net gains and losses on securities, previously recorded in the allowance for investment losses net of income taxes, are now recorded as other revenues in the condensed consolidated statement of earnings. There is no effect on previously reported net earnings.

(continued)

Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc. (continued)

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
(continued)

g. Property and equipment

Property and equipment consist of assets used in daily operations. Land is stated at cost and premises and equipment are stated at cost less accumulated depreciation. Amortization on leasehold improvements and depreciation on equipment are provided on the straight-line basis over the estimated useful life of each asset at annual rates of 10% to 50%. Depreciation on buildings is provided on a 5%, 40-year sinking fund basis.

h. Fees, commissions and other revenues

Personal and pooled trust fund fees and commissions are recorded as income when received. All other revenues are recorded as income over the term of the loan or when the service is provided.

D. Advances to affiliates

The advances to affiliates consist principally of demand notes that bear interest at a rate based upon the prime rate charged by a major Canadian bank.

E. Loans

	December 31 1988	December 31 1987	March 31 1987
Mortgages	15,949,611	13,932,223	12,727,159
Corporate term	2,146,265	2,026,599	1,839,553
Financial institutions	280,613	334,696	345,805
Consumer and collateral	3,842,830	3,079,161	2,918,493
Receivables under equipment leases	481,935	339,656	173,790
	<u>22,701,254</u>	<u>19,712,335</u>	<u>18,004,800</u>

F. Non-performing investments

	December 31 1988	December 31 1987	March 31 1987
Delinquent loans and reduced rate mortgages	23,953	19,605	47,792
Securities	70	70	3,859
Real estate acquired in settlement of loans	14,951	17,441	25,914
	<u>38,974</u>	<u>37,116</u>	<u>77,565</u>

(continued)

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Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc.
(continued)

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
(continued)

G. Allowance for investment losses

	December 31 1988	December 31 1987	March 31 1987
Beginning of period	59,624	62,944	101,094
Provision (recovered from) charged to earnings	(23,322)	1,130	53,314
Investment losses and write-offs, net of recoveries	23,805	(4,450)	(91,464)
End of period	60,107	59,624	62,944

H. Intangibles

Amortization of intangibles charged to earnings during the year amounted to \$40,016,000 (December 31, 1987– \$29,171,000; March 31, 1987– \$28,104,000).

I. Notes, mortgages and other liabilities

Included in notes, mortgages and other liabilities at December 31, 1988 are the following debentures previously included in "net assets held for disposal":

Imasco Enterprises Inc. – \$9,950,000 11¾% debentures due 1995 (December 31, 1987– \$11,450,000), \$26,687,000 11¼% debentures due 1996 (December 31, 1987– \$26,687,000), \$38,000,000 10¾% debentures due 1999 (December 31, 1987– \$40,000,000). These debentures are secured by a floating charge on all the assets of Imasco Enterprises Inc.
Imasco Financial Corporation – \$75,000,000 11¾% debentures due 1995 (December 31, 1987– \$75,000,000).

J. Minority interest

Minority interest consists of the following:

	December 31 1988	December 31 1987	March 31 1987
Preferred shares of Imasco Financial Corporation	300,000	300,000	300,000
Common shares and retained earnings of			
CT Financial Services Inc.	20,891	15,825	12,129
Preference shares of Canada Trustco			
Mortgage Company	190,757	195,551	197,450
	511,648	511,376	509,579

(continued)

Imasco Limited
For the year ended December 31, 1988,
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Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc.
(continued)

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
(continued)

K. Shareholders' equity

The components of shareholders' equity are:

	December 31 1988	December 31 1987	March 31 1987
370,000 Series A 8% Non-Cumulative Preference shares (December 31, 1987 - 545,000)	370,000	545,000	-
2,564,864 common shares	2,364,864	2,364,864	2,564,864
Contributed surplus	200,000	200,000	-
Unrealized gain (loss) on foreign currency translation	2,534	8,486	(2,918)
Retained earnings	362,006	199,554	90,617
	<u>3,299,404</u>	<u>3,317,904</u>	<u>2,652,563</u>

On December 15, 1987 Imasco Enterprises Inc. issued 545,000 Series A 8% Non-Cumulative Preference shares to Imasco Limited at a price of \$1,000 per share. During 1988, Imasco Enterprises Inc. redeemed 175,000 of these shares at the issue price.

During the nine months ended December 31, 1987, the stated capital account of Imasco Enterprises Inc., maintained in respect of its common shares, was reduced by \$200 million and this amount was transferred to a contributed surplus account.

Changes in retained earnings are as follows:

	December 31 1988	December 31 1987	March 31 1987
Beginning of period	199,554	90,617	-
Net earnings	196,052	109,511	90,617
Dividends	(33,600)	-	-
Cost of issuing securities by a subsidiary company, net of tax	-	(574)	-
End of period	<u>362,006</u>	<u>199,554</u>	<u>90,617</u>

L. Additional information

a. Dissolution of Genstar Corporation

Genstar Corporation commenced voluntary dissolution proceedings on December 29, 1986. Pursuant to such proceedings, the assets and former operations of Genstar Corporation were distributed to Imasco Enterprises Inc. and all the liabilities and obligations of Genstar Corporation were assumed.

b. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

(continued)

Notes to the Consolidated Financial Statements

5. Investment in Imasco Enterprises Inc.
(continued)

A reconciliation of Imasco Enterprises Inc.'s net earnings to the Corporation's equity in net earnings of Imasco Enterprises Inc. is as follows:

	December 31 1988	December 31 1987	March 31 1987
Net earnings of Imasco Enterprises Inc.	196,052	109,511	90,617
Interest expense on advances from			
Imasco Enterprises Inc. – net	(84,128)	(10,998)	–
Amortization of intangibles	(2,177)	(1,633)	(1,997)
Tax recovery on interest expense above	32,304	3,835	–
Equity in net earnings of Imasco Enterprises Inc.	142,051	100,715	88,620

A reconciliation of Imasco Enterprises Inc.'s shareholders' equity to the Corporation's investment in Imasco Enterprises Inc. is as follows:

	December 31 1988	December 31 1987	March 31 1987
Shareholders' equity of Imasco Enterprises Inc.	3,299,404	3,317,904	2,652,563
Intangibles, net of accumulated amortization			
of \$5,807,000 (December 31, 1987– \$3,630,000;			
March 31, 1987– \$1,997,000)	65,338	67,515	57,723
Net advances (from) to Imasco Enterprises Inc.	(709,334)	(771,922)	7,865
Investment in Imasco Enterprises Inc.	2,655,408	2,613,497	2,718,151

The intangibles resulted from acquisition expenses and financing costs capitalized by the Corporation.

Notes to the Consolidated Financial Statements

6. Long term debt

	December 31 1988	December 31 1987	March 31 1987
Term loans ^{1,2,3}	1,072,542	1,796,329	1,771,310
Debentures			
10½% due November 1996	200,000	200,000	200,000
10½% due April 1998	150,000	—	—
10¼% due December 2001	150,000	150,000	150,000
	500,000	350,000	350,000
Notes payable			
8½% due November 1991 ²	178,875	195,000	195,825
10½% due July 1993	101,125	—	—
9¼% payable to October 1993 ^{2,4}	5,963	7,800	9,138
10¾% payable to September 1994 ^{2,4}	28,620	36,400	41,776
Medium term notes ⁵	198,850	—	—
	513,433	239,200	246,739
Industrial revenue bonds ^{2,4,6}	23,077	26,043	27,637
Other long term obligations ^{2,4}	18,632	28,417	43,211
	2,127,684	2,439,989	2,438,897
Payments due within one year ⁷	(11,655)	(19,109)	(27,919)
	2,116,029	2,420,880	2,410,978

¹ Term loans consisting of unsecured promissory notes, some of which mature within one year are supported by committed bank term credit facilities of \$1,788,750,000 expiring in 1995 and 1996. Term loans at December 31, 1988 carry a weighted average interest rate of 10.3% (December 31, 1987 – 8.6%; March 31, 1987 – 7.3%). At December 31, 1987 and March 31, 1987 term loans also included bankers' acceptances.

² All or partly payable in US dollars. The aggregate principal amount of long term debt payable in US dollars at December 31, 1988 was \$722,781,000 (US \$606,106,000), at December 31, 1987 was \$740,872,000 (US \$569,902,000) and at March 31, 1987 was \$751,269,000 (US \$575,465,000).

³ Interest payments on \$50,000,000 floating rate term loans and on US \$50,000,000 floating rate term loans have effectively been converted to fixed interest rates of 10.8% for a five year term and 9.8% for a three year term respectively.

⁴ The net book value of property, plant and equipment securing notes, industrial revenue bonds and other long term obligations of a subsidiary at December 31, 1988 was approximately \$24,612,000 (December 31, 1987 – \$32,630,000; March 31, 1987 – \$32,178,000).

⁵ Medium term notes consist of unsecured notes issued for periods ranging from two to five years and carry a weighted average interest rate of 10.8% at December 31, 1988.

⁶ Industrial revenue bonds mature on various dates to 2002 and carry a weighted average interest rate of 7.2% at December 31, 1988 (December 31, 1987 – 6.4%; March 31, 1987 – 5.8%).

⁷ Long term debt repayment requirements over the next five years are estimated as follows: 1989 – \$11,655,000; 1990 – \$81,427,000; 1991 – \$220,948,000; 1992 – \$39,335,000; 1993 – \$172,460,000.

Notes to the Consolidated Financial Statements

7. Capital lease obligations

The Corporation has commitments with respect to property in the Restaurant and Drug Store segments recorded under capital leases expiring on various dates through the year 2010. The minimum annual commitments under such leases are approximately as follows:

	December 31 1988	December 31 1987	March 31 1987
1st year	7,214	7,882	6,295
2nd year	6,911	7,664	6,090
3rd year	6,363	7,323	5,787
4th year	5,606	6,728	5,291
5th year	4,483	6,266	4,705
6th year and thereafter	27,941	32,347	12,450
Total minimum commitments	58,518	68,210	40,618
Interest at a weighted average rate of 13.7%			
(December 31, 1987 – 13.4%;			
March 31, 1987 – 12.3%)	(27,815)	(32,237)	(16,587)
Payments due within one year	(3,127)	(2,783)	(2,566)
	27,576	33,190	21,465

8. Deferred gain on sale and leaseback of restaurant properties

During the year ended December 31, 1988 two sale and leaseback transactions were completed in the Restaurant segment which resulted in a total deferred gain of \$93,357,000 at December 31, 1988. The first transaction completed in February 1988, pursuant to which the land and buildings of 279 restaurant properties were sold to a partnership capitalized by a subsidiary of the Corporation and an unrelated third party and subsequently leased back, generated net cash proceeds of approximately \$235 million. The Corporation, through an indirectly owned subsidiary, maintains a 50% interest in the partnership and accounts for its investment in the partnership by the equity method. Its share of partnership earnings for the period ended December 31, 1988 amounted to \$458,000 and is included in the Restaurant segment operating earnings. The gain arising from the transaction has been deferred and totalled \$76,953,000 at December 31, 1988 and is being amortized on the basis of 50% over the 15 year life of the lease and 50% over 25 years, a period which approximates the estimated remaining lives of the assets sold to the partnership. The lease is accounted for as an operating lease.

On December 29, 1988 a second transaction was completed pursuant to which the land and buildings of 101 restaurant properties were sold to an unrelated third party and leased back for an initial minimum period of 15½ years. Net proceeds of approximately \$86 million were generated from this transaction and the resulting gain of \$16,404,000 deferred. The gain will be amortized over the initial minimum term of the lease commencing January 1, 1989. This lease is accounted for as an operating lease.

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All tabular figures are in thousands of dollars
except number of shares data

Notes to the Consolidated Financial Statements

9. Capital stock

Authorized:

- a. 1,650,000 6% Cumulative Preference shares.
- b. An unlimited number of First and Second Preference shares, issuable in series.
- c. 120,500,000 common shares.

Issued and outstanding:

	December 31 1988	December 31 1987	March 31 1987
a. 1,191,888 6% Cumulative Preference shares	5,800	5,800	5,800
b. 8,000,000 7.375% Retractable First Preference shares Series C	200,000	200,000	200,000
c. 119,190,833 common shares (December 31, 1987 – 119,190,833; March 31, 1987 – 119,122,833)	798,598	798,598	797,057
	<u>1,004,398</u>	<u>1,004,398</u>	<u>1,002,857</u>

During the periods indicated, changes in common shares issued and outstanding were:

	Shares	Amount
March 31, 1986	108,908,146	447,958
Issued		
At \$34.50 pursuant to a public offering	10,000,000	345,000
At \$18.50 on the exercise of stock options	202,000	3,737
Under stock dividend plans	25,769	848
Purchased for cancellation	(13,082)	(486)
March 31, 1987	119,122,833	797,057
Issued at \$18.50 to \$26.375 on the exercise of stock options	68,000	1,541
December 31, 1987 and December 31, 1988	119,190,833	798,598

During the year ended March 31, 1987, eight million 7.375% Retractable First Preference shares Series C were issued at \$25 per share.

At December 31, 1988 there were stock options outstanding in respect of 1,022,610 common shares granted to certain employees of the Corporation with a weighted average exercise price of \$26.88. These options expire at various dates to 1995. The exercise of the stock options would not dilute earnings per common share and consequently fully diluted earnings per common share are not presented.

The weighted average number of shares outstanding used in the determination of earnings per common share at December 31, 1988 was 119,190,833 (December 31, 1987 – 119,178,244; March 31, 1987 – 116,865,915).

Notes to the Consolidated Financial Statements

10. Retirement benefits

Pension benefits are available to substantially all full time employees under the Corporation's contributory defined benefit plans. Benefits under these plans are based on the employee's years of service and final average pay. Pension funding is provided based on actuarial estimates and is subject to limitations under applicable tax regulations.

Effective April 1, 1987 the Corporation changed its method of accounting for pension expense, on a prospective basis, as required under new accounting standards issued by the Canadian Institute of Chartered Accountants. Pension expense totalled \$1,098,000 for the year ended December 31, 1988 and \$1,229,000 for the nine months ended December 31, 1987. The accounting change decreased pension expense by \$1,360,000 for the nine months ended December 31, 1987.

Pension expense is summarized below:

	December 31 1988	December 31 1987
Service cost on benefits earned	10,126	8,118
Interest cost on projected benefit obligations	32,226	22,927
Return on plan assets	(36,047)	(26,309)
Amortization of net assets at April 1, 1987 and other	(5,207)	(3,507)
Total pension expense	1,098	1,229

The status of the Corporation's pension plans was as follows:

	December 31 1988	December 31 1987
Plan assets at market related value	465,419	461,638
Projected benefit obligations	428,081	393,284
Excess of plan assets over projected benefit obligations	37,338	68,354
Balance of unrecognized net assets at April 1, 1987	(47,684)	(54,752)
Unrecognized net loss (gain)	20,357	(7,564)
Prepaid pension expense	10,011	6,038

The projected benefit obligations were determined using assumed discount rates ranging from 8% to 8½% (December 31, 1987– 8% to 8½%) and assumed rates of compensation increases ranging from 6% to 6½% (December 31, 1987– 6% to 7½%). The assumed rates of return on assets range from 8% to 8½% (December 31, 1987– 8% to 8½%).

11. Interest expense

	December 31 1988	December 31 1987	March 31 1987
Interest on long term debt	223,486	143,398	143,404
Interest on capital leases	4,526	3,324	3,987
Other interest – net	(10,366)	2,201	9,397
	217,646	148,923	156,788

Interest expense capitalized during the year ended December 31, 1988 amounted to \$1,051,000 and for the nine months ended December 31, 1987 totalled \$19,362,000. These amounts represent interest on funds expended on construction projects until project completion in the Restaurant segment. The 1987 amount also includes carrying charges on the "net assets held for disposal" arising from the acquisition of Genstar Corporation.

Notes to the Consolidated Financial Statements

12. Income taxes

a. The effective income tax rate on earnings reported varies from year to year due to factors such as changes in statutory income tax rates, the imposition of temporary surtaxes, variations in special tax incentives made available under tax legislation and differences in the extent to which they may be claimed, and differences in the geographic and industrial mix of earnings. The principal factors causing the difference between the effective income tax rate and the combined federal and provincial tax rate in Canada are as follows:

	December 31 1988	December 31 1987	March 31 1987
Combined federal and provincial			
income tax rate	41.7%	44.1%	42.6%
Foreign income taxed at lower rates	(12.9)	(9.0)	(9.9)
Manufacturing and processing allowances	(1.2)	(3.3)	(4.7)
Other items	3.1	3.1	2.8
Effective income tax rate excluding			
equity earnings	30.7%	34.9%	30.8%

The effective income tax rate of the Corporation is calculated from its consolidated statement of earnings as follows:

	December 31 1988	December 31 1987	March 31 1987
Provision for income taxes	76,272	77,263	55,301
Earnings before income taxes	390,582	322,292	267,947
Equity in net earnings of Imasco			
Enterprises Inc.	142,051	100,715	88,620
Pre-tax earnings excluding equity earnings	248,531	221,577	179,327
Effective income tax rate	30.7%	34.9%	30.8%

b. The components of the provision for income taxes are as follows:

	December 31 1988	December 31 1987	March 31 1987
Current	88,124	60,683	56,096
Deferred	(11,852)	16,580	(795)
	76,272	77,263	55,301

Notes to the Consolidated Financial Statements

13. Extraordinary items

The Corporation has undertaken a programme to reorganize the operations of Peoples Drug Stores and to dispose of the operations of Grisanti, Inc. The 1988 provision for Peoples Drug Stores results from expected losses on disposal of approximately 240 stores principally in Ohio and Indiana and the Reed Drug Stores division operating 85 stores principally in Georgia. The total 1988 provision amounts to \$99,725,000 and includes the net losses expected from the operation of the stores to be sold during the next fiscal year together with the anticipated costs of disposal. In January 1989 the Corporation entered into an agreement to sell the assets of the Reed Drug Stores division for approximately \$60 million. This transaction is expected to close during the first quarter of 1989. A provision has been recorded to reflect the estimated loss on disposal of Grisanti, Inc. and the write-down of other smaller investments. The provision, which totals \$34,949,000, includes expected net operating losses and costs of disposal.

	December 31 1988	December 31 1987	March 31 1987
Provision for costs of reorganizing			
Peoples Drug Stores, net of tax recovery of \$17,770,000 (March 31, 1987 – \$14,343,000)	(81,955)	–	(24,421)
Provision for loss on disposal of Grisanti, Inc., and write-down of other investments, net of tax recovery of \$6,904,000	(28,045)	–	–
Provision for costs of disposal of Imperial Tobacco's Québec City plant and other investments, net of tax recovery of \$3,188,000	–	–	(4,658)
	(110,000)	–	(29,079)

14. Dividends

	December 31 1988	December 31 1987	March 31 1987
6% Cumulative Preference shares	348	174	348
7.375% Retractable First Preference shares			
Series C	14,750	11,062	10,406
Common shares	123,958	85,808	101,493
	139,056	97,044	112,247

15. Operating lease commitments

The Corporation has commitments with respect to real estate operating leases, most of which are for terms of three to 20 years. The minimum annual commitments under such leases, net of amounts assumed by franchisees and other third parties, are approximately as follows:

	December 31 1988	December 31 1987	March 31 1987
1st year	115,146	79,426	73,453
2nd year	128,070	75,902	69,970
3rd year	122,489	73,863	66,209
4th year	117,931	68,668	62,226
5th year	110,852	61,354	56,526

The minimum rental commitments existing at December 31, 1988 before deducting amounts assumed by franchisees and third parties are approximately as follows: 1989 – \$168,746,000; 1990 – \$175,335,000; 1991 – \$166,541,000; 1992 – \$157,919,000; 1993 – \$145,964,000. The minimum annual rental commitments as listed above do not give effect to escalation and percentage-of-sales clauses in certain of the leases. Net rentals under leases, including escalation and percentage-of-sales payments, amounted to \$144,568,000 for the year ended December 31, 1988 (December 31, 1987 – \$85,059,000; March 31, 1987 – \$110,393,000). In addition, the Corporation has operating lease commitments for equipment which are for terms of one to 10 years, with an annual rental of approximately \$23,600,000.

Notes to the Consolidated Financial Statements

16. Related party transactions

a. B.A.T Industries p.l.c., through the ownership of 40.4% of the common shares of the Corporation, is defined as a related party. Transactions with B.A.T Industries p.l.c. and its subsidiaries were as follows:

	December 31 1988	December 31 1987	March 31 1987
i. Payment of fees for research and development, marketing and manufacturing services	881	888	1,281
ii. Export sales of leaf tobacco	8,428	1,934	8,955
iii. Purchases of materials	5,523	5,047	7,927

b. On April 17, 1986 Imasco Limited signed a letter of undertaking to the Minister of Finance stating its intent that Imasco Limited would not engage in any prohibited related party transactions with Canada Trustco Mortgage Company and its subsidiaries and would take steps to preserve its arm's length relationship with Canada Trustco Mortgage Company with respect to its officers, directors and auditors. In addition, it agreed that neither Imasco Limited nor any of its affiliates would acquire control of any company offering financial services in Canada until the earlier of December 31, 1987 or nine months after Bill C-103 comes into force. Similarly, on May 21, 1986 Canada Trustco Mortgage Company signed a letter of undertaking to the Minister of Finance stating its resolve to abstain from prohibited related party transactions. In conformity with these undertakings, no such transactions have been initiated between the Corporation and Canada Trustco Mortgage Company and its affiliates.

17. Other information

- Research and development costs charged to earnings during the year amounted to \$2,226,000 (December 31, 1987 – \$2,157,000; March 31, 1987 – \$2,897,000).
- The Corporation has provided guarantees to various banks in respect of certain borrowings by drug store Associates. The total of these guarantees at December 31, 1988 was \$71,630,000 (December 31, 1987 – \$67,435,000; March 31, 1987 – \$61,955,000).
- Goodwill amortization related to consolidated segments and charged to earnings during the year amounted to \$6,831,000 (December 31, 1987 – \$5,137,000; March 31, 1987 – \$6,887,000).
- Certain comparative amounts have been reclassified to conform to the current year's presentation.
- For balance sheet purposes, amounts denominated in US dollars have been converted into Canadian dollars at the rate of exchange in effect at year end as follows: December 31, 1988 – US \$1 = Cdn \$1.19; December 31, 1987 – US \$1 = Cdn \$1.30; March 31, 1987 – US \$1 = Cdn \$1.31.
- The Corporation and its subsidiaries are parties to claims and suits brought against them in the ordinary course of business. In addition, certain of the unconsolidated subsidiaries acquired as part of the Genstar transaction are subject to numerous claims and suits, some of which allege significant damage. In the opinion of management, all such claims and suits are adequately covered by insurance, or are provided for in the financial statements, or if not so covered or provided for, the results are not expected to materially affect the Corporation's financial position.
- Imasco Financial Corporation, CT Financial Services Inc. and Canada Trustco Mortgage Company, all have capital stock listed on various securities exchanges and issue annual reports.
- On December 21, 1987 the Minister of State for Finance released a discussion draft of a new Federal Trust and Loan Companies Act which outlined significant changes to be legislated in respect of the regulation of the financial services industry, the powers of financial institutions and the ownership of financial institutions. Included is a provision which, if enacted as proposed, would require the Corporation to reduce its shareholding in CT Financial Services Inc. by December 31, 1991 to no more than 65% of the voting shares outstanding.

Notes to the Consolidated Financial Statements

18. Segmented financial information

Financial information is presented according to the following industry segments.¹

Consolidated segments:

Tobacco – Imperial Tobacco: manufactures and distributes tobacco products.

Restaurant – Imasco USA: operates, licenses, supplies and services a system of fast service restaurants primarily in the United States.

Drug store – Shoppers Drug Mart and Peoples Drug Stores (a U.S. drug store chain): retail operations which specialize in prescription drugs, health and beauty aids and a broad mix of consumer products.

Other – The UCS Group: retail operations specializing in tobacco products, confectionery, reading materials and gifts. – Imasco corporate activities.

Non-consolidated segment:

Financial services – Imasco Enterprises Inc.: includes primarily the operations of CT Financial Services Inc. which is engaged in savings, loans, trust and real estate brokerage services.

		December 31 1988	December 31 1987	March 31 1987
Revenues	Tobacco	2,018,065	1,480,043	1,787,614
	Restaurant	1,756,864	1,441,944	1,656,350
	Drug store			
	Shoppers Drug Mart	194,925	133,837	144,267
	Peoples Drug Stores	1,841,656	1,419,307	1,875,273
	Other	256,593	185,275	213,335
	Intersegmental ²	(67,549)	(47,019)	(51,765)
		6,000,554	4,613,387	5,625,074
Operating earnings	Tobacco	308,018	219,778	210,009
	Restaurant	130,334	120,819	128,316
	Drug store			
	Shoppers Drug Mart	57,079	40,567	46,882
	Peoples Drug Stores	(8,342)	5,189	(32,117)
	Other	7,555	7,207	6,450
		494,644	393,560	359,540
	Equity in net earnings of Imasco Enterprises Inc.	142,051	100,715	88,620
		636,695	494,275	448,160
Depreciation and amortization expense	Tobacco	17,411	14,236	16,732
	Restaurant	78,016	57,781	68,096
	Drug store			
	Shoppers Drug Mart	20,530	14,103	15,583
	Peoples Drug Stores	39,122	30,719	42,488
	Other	3,386	2,080	2,317
		158,465	118,919	145,216

¹ For the periods reported on, other than the Restaurant and the Peoples Drug Stores segments, industry segments outside Canada were not significant.

² Intersegmental revenues consist of sales from Imperial Tobacco to The UCS Group at normal wholesale selling prices.

(continued)

Imasco Limited
For the year ended December 31, 1988,
the nine months ended December 31, 1987
and the year ended March 31, 1987

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

18. Segmented financial information (continued)		December 31 1988	December 31 1987	March 31 1987
Capital expenditures ³	Tobacco	18,923	22,228	14,866
	Restaurant	209,933	166,037	166,288
	Drug store			
	Shoppers Drug Mart	27,985	21,275	22,694
	Peoples Drug Stores	41,876	23,604	25,577
	Other	5,139	5,767	4,435
		303,856	238,911	233,860
Property, plant and equipment ⁴	Tobacco	116,366	113,640	108,694
	Restaurant	516,728	671,766	551,791
	Drug store			
	Shoppers Drug Mart	90,919	79,380	69,230
	Peoples Drug Stores	198,244	210,662	225,377
	Other	20,191	19,102	15,671
		942,448	1,094,550	970,763
Inventories	Tobacco	321,385	360,409	420,152
	Restaurant	66,824	70,074	60,513
	Drug store			
	Shoppers Drug Mart	14,175	19,433	15,692
	Peoples Drug Stores	462,971	491,328	442,109
	Other	35,402	39,227	32,422
		900,757	980,471	970,888
Capital employed ⁵	Tobacco	496,411	513,897	548,779
	Restaurant	587,744	777,538	625,662
	Drug store			
	Shoppers Drug Mart	209,814	194,181	168,266
	Peoples Drug Stores	523,480	703,594	685,286
	Other	45,590	40,665	38,721
		1,863,039	2,229,875	2,066,714
Reconciliation of capital employed and excess of assets over current liabilities	Capital employed	1,863,039	2,229,875	2,066,714
	Investment in Imasco Enterprises Inc.	2,655,408	2,613,497	2,718,151
	Other corporate assets	170,595	257,011	98,757
		4,689,042	5,100,383	4,883,622
	Corporate current liabilities	(175,993)	(340,818)	(295,021)
	Excess of assets over current liabilities	4,513,049	4,759,565	4,588,601

³ Capital expenditures on property, plant and equipment.

⁴ Property, plant and equipment is presented net of accumulated depreciation and amortization.

⁵ Capital employed of each consolidated segment consists of directly identifiable assets at net book value, less current liabilities, excluding income taxes payable and bank and other debt. Corporate assets and corporate current liabilities are also excluded.

Selected Ten Year Financial Data
For the years ended December 31

		1988	1987
Operations	System-wide sales	13,836,479	12,951,434
	Revenues	6,000,554	5,924,365
	Depreciation and amortization expense on property, plant and equipment	139,524	135,624
	Operating earnings ¹	636,695	578,377
	Corporate expense	28,467	29,613
	Interest expense	217,646	186,798
	Income taxes	76,272	79,297
	Earnings before extraordinary items	314,310	282,669
	Net earnings after extraordinary items	204,310	253,590
	Earnings per common share before extraordinary items ²		
	Basic	\$2.51	\$2.24
	Fully diluted	\$2.51	\$2.24
Dividend record	On preference shares	15,098	15,098
	On common shares	123,958	114,389
	Per common share ²	\$1.04	\$0.96
Working capital provided	From operations	370,981	331,853
Capital expenditures	On property, plant and equipment	303,856	306,274
Financial position	Current assets	1,363,669	1,541,576
	Current liabilities	797,264	897,046
	Working capital	566,405	644,530
	Property, plant and equipment		
	Before accumulated depreciation and amortization	1,576,102	1,693,637
	Net of accumulated depreciation and amortization	942,448	1,094,550
	Total assets	5,310,313	5,656,611
	Long term debt	2,116,029	2,420,880
	Excess of assets over liabilities	2,354,399	2,254,235
Shareholders' equity	Preference shareholders	205,800	205,800
	Common shareholders ³	2,055,242	2,048,435
	Per common share ²	\$17.24	\$17.19
Financial ratios	Return on average common shareholders' equity ⁴	14.6%	13.4%
	Return on average total assets	5.7%	5.1%
	Interest coverage ratio	2.8x	2.9x
	Current ratio	1.7:1	1.7:1
	Debt to total capital ratio ⁵	48.3%	51.8%
	Common dividend payout ratio ⁶	46.4%	50.0%

¹ Operating earnings for the years 1979 to 1981 have been restated to include equity earnings in order to conform to the current year's presentation.

² Prior years' amounts are restated to reflect the subdivisions of common shares on a two for one basis on March 22, 1985, November 23, 1982 and July 30, 1980.

³ Common shareholders' equity includes unrealized loss or gain on foreign currency translation.
⁴ Net earnings before extraordinary items less dividends on preference shares as a percentage of average shareholders' equity excluding preference shares.

⁵ Long term debt as a percentage of long term debt and total equity.

⁶ Dividend per common share as a percentage of prior year's fully diluted earnings per common share before extraordinary items.

1986	1985	1984	1983	1982	1981	1980	1979
Thousands of dollars, except "Per common share" and "Financial ratios"							
11,132,189	8,371,834	6,826,671	5,303,718	4,695,158	3,623,053	1,973,391	1,694,046
5,596,632	5,110,207	3,942,599	2,854,879	2,599,503	2,082,391	1,267,436	1,171,267
122,945	116,349	83,448	63,890	56,230	40,842	15,466	12,494
455,606	464,067	410,375	330,049	295,890	237,548	156,156	127,751
23,259	19,199	16,537	14,577	12,895	11,202	8,156	7,156
127,629	34,469	48,595	26,276	43,379	32,766	15,129	11,870
78,332	148,843	122,890	104,339	87,499	70,164	50,863	43,333
226,386	261,556	222,353	184,857	152,117	123,416	82,008	65,392
226,386	261,556	211,216	211,733	152,117	118,753	82,008	66,706
\$1.92	\$2.40	\$2.19	\$1.81	\$1.72	\$1.40	\$0.99	\$0.79
\$1.92	\$2.40	\$2.16	\$1.80	\$1.61	\$1.33	\$0.99	\$0.79
7,067	348	2,131	8,594	8,986	7,598	348	651
95,780	78,398	59,073	43,384	32,090	27,950	23,812	19,892
\$0.84	\$0.72	\$0.59	\$0.475	\$0.388	\$0.338	\$0.288	\$0.244
340,578	402,887	307,654	260,920	235,721	176,026	101,248	83,635
218,997	184,764	184,627	101,002	109,528	105,508	42,208	39,889
1,434,220	1,609,685	1,348,988	927,192	757,358	638,417	427,606	406,862
862,754	808,096	613,766	391,860	332,824	329,698	235,701	207,658
571,466	801,589	735,222	535,332	424,534	308,719	191,905	199,204
1,521,252	1,348,653	1,135,822	825,774	799,902	649,769	250,645	202,437
989,152	912,220	785,544	533,078	534,034	427,441	143,515	109,932
5,505,523	2,905,685	2,560,898	1,658,487	1,478,999	1,235,862	743,393	651,138
2,425,831	546,873	597,579	226,772	269,744	269,984	100,326	96,309
2,137,079	1,488,644	1,285,584	968,617	798,705	577,976	390,333	332,398
205,800	5,800	5,800	98,756	110,664	110,325	5,800	5,888
1,931,279	1,482,844	1,279,784	869,861	688,041	467,651	384,533	326,510
\$16.22	\$13.62	\$11.75	\$9.43	\$7.57	\$5.65	\$4.64	\$3.94
12.8%	18.9%	20.5%	22.6%	24.8%	27.2%	23.0%	22.2%
5.4%	9.6%	10.5%	11.8%	11.2%	12.5%	11.8%	10.7%
3.4x	12.9x	8.1x	12.0x	6.5x	6.9x	9.8x	10.2x
1.7:1	2.0:1	2.2:1	2.4:1	2.3:1	1.9:1	1.8:1	2.0:1
53.2%	26.9%	31.7%	19.0%	25.2%	31.8%	20.4%	22.5%
35.0%	33.3%	32.8%	29.5%	29.2%	34.1%	36.5%	38.7%

Divisional Statistical Highlights
Five year review for years ended
December 31

	1988	1987	1986	1985	1984
Thousands of dollars, except "Number of stores"					
Canadian Divisions					
Imperial Tobacco					
Revenues	2,018,065	1,925,987	1,754,618	1,701,837	1,449,085
Sales and excise taxes	1,156,052	1,109,809	1,042,579	944,324	727,002
Depreciation expense ¹	14,541	14,556	12,948	12,240	10,312
Operating earnings	308,018	279,077	208,120	243,661	216,542
Inventories	321,385	360,409	396,471	343,366	407,915
Property, plant and equipment – net	116,366	113,640	116,552	106,596	102,637
Capital expenditures ²	18,923	25,595	23,323	16,555	20,357
Shoppers Drug Mart					
System-wide sales	2,355,627	2,073,402	1,774,918	1,522,292	1,350,165
Revenues					
Sales ³	80,054	74,611	41,457	–	–
Service fees and other	114,871	95,730	86,614	73,413	64,318
Depreciation expense ¹	15,323	13,246	11,177	9,459	8,818
Operating earnings	57,079	51,302	48,876	42,498	36,353
Inventories	14,175	19,433	14,402	5,795	1,792
Property, plant and equipment – net	90,919	79,380	65,049	49,629	47,206
Capital expenditures ²	27,985	27,586	23,286	16,419	10,345
Number of stores	613	586	543	431	442
The UCS Group					
Revenues	256,593	235,331	205,934	187,820	173,962
Depreciation expense ¹	3,163	2,647	2,108	1,593	1,505
Operating earnings	7,555	6,709	6,649	5,536	5,390
Inventories	35,402	39,227	33,120	31,891	28,219
Property, plant and equipment – net	19,914	18,889	15,171	10,602	9,484
Capital expenditures ²	4,862	6,856	4,098	2,992	2,183
Number of stores	525	524	494	460	455

¹ Represents depreciation and amortization expense on property, plant and equipment.

² Capital expenditures on property, plant and equipment.

³ In 1986 includes the sales of company-owned stores effective April 1. Revenues of these stores were previously reported as though they were operated by Associates.

Divisional Statistical Highlights
Five year review for years ended
December 31
U.S. Divisions

	1988	1987	1986	1985	1984
Thousands of US dollars, except "Number of restaurants" and "Number of stores"					
Imasco USA					
System-wide sales	3,305,514	3,063,676	2,676,488	2,376,462	2,154,930
Revenues					
Sales					
Company-owned					
restaurants	887,855	761,591	667,712	623,387	599,786
Other	483,412	544,920	468,011	403,096	359,772
Service and licence fees	59,635	53,584	46,248	39,899	36,866
Depreciation expense ¹	60,607	54,723	45,896	43,619	35,362
Operating earnings ²	106,702	103,702	92,895	85,570	81,693
Inventories	56,037	53,903	39,208	35,088	39,488
Property, plant and					
equipment – net	433,315	516,743	399,000	354,165	338,316
Capital expenditures ³	170,872	163,707	97,704	73,306	84,421
Number of restaurants					
Company-owned	1,070	995	893	876	844
Licensed	2,081	1,962	1,818	1,662	1,531
	3,151	2,957	2,711	2,538	2,375
Peoples Drug Stores ⁴					
Revenues	1,497,585	1,396,035	1,382,976	1,272,815	743,635
Depreciation expense ¹	25,859	24,573	23,808	20,504	7,097
Operating earnings ²	(6,585)	(16,857)	(229)	38,394	34,143
Inventories	388,236	377,945	333,770	342,892	227,313
Property, plant and					
equipment – net	166,242	162,048	175,726	179,059	124,529
Capital expenditures ³	33,998	21,614	23,436	42,603	14,633
Number of stores	829	819	830	824	763

¹ Represents depreciation and amortization expense on property, plant and equipment.

² Includes the amortization of purchase price allocations arising from acquisition.

³ Capital expenditures on property, plant and equipment.

⁴ Peoples Drug Stores, Incorporated became a wholly owned subsidiary April 1, 1984. Statistical highlights for 1984 are for the nine months from the date of acquisition to December 31, 1984.

CT Financial Services Inc.¹
Statistical Highlights
Three year review for years ended
December 31

	1988	1987	1986
Thousands of dollars, except "Per common share", "Statistical data" and "Financial ratios"			
Operations			
Investment income	2,783,907	2,456,377	2,353,183
Net investment income after provision			
for investment losses	678,895	582,548	408,054
Fees, net commissions and other income	297,770	274,513	239,357
Earnings before operating expenses	976,665	857,061	647,411
Earnings before income taxes and dividends on			
preference shares of subsidiary company	359,016	302,507	142,217
Income taxes	110,796	85,980	8,338
Dividends on preference			
shares of subsidiary company	16,242	15,548	9,425
Net earnings	231,978	200,979	124,454
Per common share			
Net earnings			
Basic	\$1.97	\$1.74	\$1.10
Fully diluted	\$1.95	\$1.70	\$1.08
Dividends	\$0.65	\$0.65	\$0.43
Financial position			
Assets under administration	67,401,000	60,626,000	52,426,000
Corporate assets	29,219,000	25,515,000	24,078,000
Deposits	27,399,000	23,937,000	22,814,000
Loans	22,180,000	19,340,000	16,793,000
Shareholders' equity	1,294,000	1,133,000	928,000
Statistical data at year end			
Number of common shares outstanding			
Basic	118,153,459	117,874,835	113,456,283
Fully diluted	119,730,694	119,323,265	117,838,254
Financial services branches	317	311	300
Real estate offices	193	184	177
Trust services offices	22	22	22
Financial ratios			
Return on average common shareholders'			
equity – fully diluted	19.0%	19.4%	14.1%
Return on average corporate assets	0.85%	0.80%	0.54%
Loan loss experience as a percentage			
of loans outstanding	(0.107%)	0.026%	0.598%
Allowance for investment losses as			
a multiple of non-performing investments	1.6	1.7	0.7

¹ Imasco Enterprises Inc., a wholly owned subsidiary of the Corporation, indirectly owns in excess of 98% of the outstanding common shares of CT Financial Services Inc. The accounts of CT Financial Services Inc. are not consolidated with those of the Corporation. The Corporation accounts for Imasco Enterprises Inc. by the equity method. The highlights presented above have been extracted from CT Financial Services Inc.'s Annual Report for the year ended December 31, 1988. Certain amounts for 1987 and 1986 have been reclassified to conform with financial statement presentation adopted for 1988.

Quarterly Consolidated Financial Information

		Thousands of dollars, except "Per common share"				
Year ended December 31, 1988		March 1988	June 1988	September 1988	December 1988	Total
	System-wide sales	3,167,211	3,379,802	3,582,700	3,706,766	13,836,479
	Revenues	1,422,788	1,472,045	1,544,950	1,560,771	6,000,554
	Operating earnings	113,059	153,562	177,635	192,439	636,695
	Corporate expense	7,242	6,762	6,834	7,629	28,467
	Interest expense	56,381	52,065	54,055	55,145	217,646
	Income taxes	4,811	17,427	27,790	26,244	76,272
	Earnings before extraordinary items	44,625	77,308	88,956	103,421	314,310
	Per common share					
	Earnings before extraordinary items	\$0.34	\$0.62	\$0.71	\$0.84	\$2.51
	Dividends	\$0.26	\$0.26	\$0.26	\$0.26	\$1.04
	Market price – High	29½	29½	27½	28¼	
	Low	23¾	25⅝	24⅜	25½	
Nine months ended December 31, 1987			June 1987	September 1987	December 1987	Total
	System-wide sales		3,149,894	3,322,227	3,601,258	10,073,379
	Revenues		1,426,904	1,512,861	1,673,622	4,613,387
	Operating earnings		141,457	161,273	191,545	494,275
	Corporate expense		6,183	6,759	10,118	23,060
	Interest expense		44,180	51,055	53,688	148,923
	Income taxes		20,941	26,423	29,899	77,263
	Earnings before extraordinary items		70,153	77,036	97,840	245,029
	Per common share					
	Earnings before extraordinary items		\$0.56	\$0.61	\$0.79	\$1.96
	Dividends		\$0.24	\$0.24	\$0.24	\$0.72
	Market price – High		38⅞	37	33¼	
	Low		32¼	32¼	22¾	
Year ended March 31, 1987		June 1986	September 1986	December 1986	March 1987	Total
	System-wide sales	2,711,091	3,096,406	3,219,355	2,878,055	11,904,907
	Revenues	1,366,348	1,439,755	1,507,993	1,310,978	5,625,074
	Operating earnings	108,189	119,718	136,151	84,102	448,160
	Corporate expense	4,984	5,351	6,537	6,553	23,425
	Interest expense	34,209	41,891	42,813	37,875	156,788
	Income taxes	16,070	16,870	20,327	2,034	55,301
	Earnings before extraordinary items	52,926	55,606	66,474	37,640	212,646
	Per common share					
	Earnings before extraordinary items	\$0.48	\$0.44	\$0.53	\$0.28	\$1.73
	Dividends	\$0.21	\$0.21	\$0.21	\$0.24	\$0.87
	Market price – High	40	36⅞	35	39½	
	Low	32	30½	31	32⅞	

Officers

Purdy Crawford
 Chairman, President and Chief Executive Officer
 Jean-Louis Mercier
 Vice-Chairman
 Raymond E. Guyatt, C.A.
 Executive Vice-President, Chief Financial Officer and Treasurer
 Torrance J. Wylie
 Executive Vice-President
 W. John Bennett
 Senior Vice-President
 William J. Harris
 Senior Vice-President, Administration
 Roy R. Schwartz
 Senior Vice-President, Legal and Corporate Development
 Robert C. Bégin, C.A.
 Vice-President, Treasury Services
 Pierre Duhamel, C.A.
 Vice-President and Corporate Controller
 Hugh W. McAdams, C.A.
 Vice-President, Corporate Finance
 Norman Montcalm
 Secretary

Imperial Tobacco Limited

3810 St. Antoine Street West
 Montréal, Québec
 H4C1B5
 Jean-Louis Mercier
 Chairman and Chief Executive Officer
 Wilmat Tennyson
 President and Chief Operating Officer
 Roger S. Ackman
 Vice-President and General Counsel
 R. Donald Brown
 Vice-President, Marketing
 Michael A. Courtney
 Vice-President, Finance
 Marius Dagneau
 Vice-President, Human Resources, and Secretary
 Patrick J. Dunn
 Vice-President, Research and Development
 André Laporte
 Vice-President, Manufacturing
 Thomas F. Lee
 Vice-President, Materials Management
 Édouard Darche, C.A.
 Controller

General Cigar Company
 Montréal, Québec

Imperial Leaf Tobacco
 Aylmer, Ontario

du Maurier Council for the Arts Ltd.
 Montréal, Québec

du Maurier Ltd.
 Montréal, Québec

Matinée Ltd.
 Montréal, Québec

Player's Ltd.
 Montréal, Québec

Imasco USA, Inc.

1233 Hardee's Boulevard
 Rocky Mount, North Carolina, 27804-2815
 U.S.A.
 Jack A. Laughery
 Chairman, President and Chief Executive Officer
 Breen O. Condon
 Senior Vice-President, General Counsel and Secretary
 Jesse M. Harrington, III
 Senior Vice-President and Treasurer
 Thomas H. Sparks
 Senior Vice-President, Human Resources
 John F. Schmutz
 Vice-President, Legal, and Assistant Secretary
 John D. Merritt
 Vice-President, Government and Public Affairs

Hardee's Food Systems, Inc.

William E. Prather, Jr.
 President and Chief Operating Officer
 Ralph E. Peterson
 Executive Vice-President and Chief Financial Officer
 Gary L. Langstaff
 Executive Vice-President, Marketing
 Paul R. Lovin, Jr.
 Executive Vice-President, Operations
 Gerald L. McGinnis
 Executive Vice-President, Development

Fast Food Merchandisers, Inc.

Hugh Todd, Jr.
 Chairman and Chief Executive Officer
 Robert F. Autry
 President and Chief Operating Officer
 F. Winslow Goins
 Executive Vice-President, Distribution Services

Imasco USA, Inc. (continued)

Grisanti, Inc.

9300 Shelbyville Road
Louisville, Kentucky, 40222
U.S.A.

Michael J. Grisanti
President and Chief Operating Officer

Burger Chef Systems, Inc.

38777 West Six Mile Road
Livonia, Michigan, 48152
U.S.A.

Robert E. Haberkamp
President and Chief Operating Officer

Imasco Drug Retailing Group

David R. Bloom
Chairman and Chief Executive Officer

Shoppers Drug Mart

225 Yorkland Blvd.
Willowdale, Ontario
M2J 4Y7

Pharmaprix
Montréal, Québec

Murray B. Koffler, C.M.
Honorary Chairman
David R. Bloom
Chairman and Chief Executive Officer
Herbert R. Binder
President and Chief Operating
Officer
Kenneth A. Sloan, C.A.
Senior Executive Vice-President, Finance
and Planning, and Chief Financial Officer
Stanley A. Thomas
Senior Executive Vice-President,
Marketing
Fred K. Van Laare
Executive Vice-President, Operations
Marvin A. Goldberg
Executive Vice-President, Legal and
Corporate Affairs, and Secretary
Louis M. Goelman
Executive Vice-President,
Merchandising and Distribution
Malcom G. Swartz, C.A.
Executive Vice-President, Administration
Dale Daley
Executive Vice-President, Atlantic
Claude Allard
Executive Vice-President, Pharmaprix
Albert Krakauer
Executive Vice-President, Ontario
Brian P. Relph
Executive Vice-President, Ontario
David H. MacDonald
President, Shoppers Drug Mart West
Isadore Snyder
Executive Vice-President, Retail
Development
Raymond A. Hallett
Senior Vice-President, Human Resources
Arthur Konviser
Senior Vice-President, Public Affairs

Shoppers Drug Mart (continued)

Gordon Stromberg
Senior Vice-President, Advertising
Irving Bain
Executive Vice-President
Irving Horowitz
Executive Vice-President

Peoples Drug Stores, Incorporated

6315 Bren Mar Drive
Alexandria, Virginia, 22312
U.S.A.

David H. Eisenberg
Senior Executive Vice-President and Chief
Operating Officer
I. Howard Diener
Executive Vice-President, Marketing
William J. Eagleson
Executive Vice-President, Bud's
David C. Forman
Executive Vice-President, Human
Resources
Richard L. Hall
Executive Vice-President and Chief
Financial Officer
Wilson A. Lester, Jr.
Executive Vice-President, Distribution
Mary M. Mahon
Executive Vice-President, General
Counsel and Corporate Secretary
Kenneth C. Simmons
Executive Vice-President, Operations
Charles H. Sonnenberg
Executive Vice-President, Information
Systems
Jerry V. Wilson
Senior Vice-President, Security
Robert A. Gabler
Regional Senior Vice-President
George R. Hampu
Regional Senior Vice-President,
Operations
James L. Johnston
Regional Senior Vice-President
Larry J. Merlo
Regional Senior Vice-President
Mark A. Miller
Regional Senior Vice-President
Thomas A. Hough
Vice-President and Controller
G. Michael Martin
Treasurer

Imasco Limited
Divisional Information
(continued)

Imasco Enterprises Inc.

1040 West Georgia Street
Vancouver, B.C.
V6E 4H3

Purdy Crawford
Chairman, President and Chief Executive
Officer

Imasco Financial Corporation

600 de Maisonneuve Blvd. West
Montréal, Québec
H3A 3K7

W. John Bennett
Chairman, President and Chief Executive
Officer

CT Financial Services Inc.

275 Dundas Street
London, Ontario
N6A 4S4

Mervyn L. Lahn
Chairman and Chief Executive Officer
Peter C. Maurice
President and Chief Operating Officer

The UCS Group

50 Overlea Blvd.
Toronto, Ontario
M4H 1B9

Norman Latowsky
President and Chief Executive Officer

Imasco B.V.

Herengracht 495
1017 BT Amsterdam
The Netherlands

Matthews Glezos
President

Fribourg Branch
34, rue de Lausanne
CH-1701 Fribourg
Switzerland

Alan J. Perrier, C.A.
Managing Director

Corporate Information

The Corporation	Incorporated by Federal Charter April 3, 1912 Continued under the Canada Business Corporations Act August 6, 1976		
Auditors	Deloitte Haskins & Sells Chartered Accountants 1 Place Ville-Marie Montréal, Québec H3B 2W3		
Transfer agent and registrar	Montreal Trust Company Halifax, Montréal, Toronto, Winnipeg, Regina, Vancouver		
Stock exchange listings	Montréal, Toronto, Vancouver		
Symbols	Common shares		
IMS	7.375% Preference shares Series C		
IMS.PR.C	6% Cumulative Preference shares		
IMS.PR.A			
Value of shares on valuation day, December 22, 1971	Common \$2.50 6% Cumulative Preference \$4.60		
Financial calendar 1989	Fiscal year end: December 31 Interim reports mailed: May, August, November Dividend dates: Common shares Quarterly: March, June, September, December 7.375% Retractable First Preference shares Series C Quarterly: March, June, September, December 6% Cumulative Preference shares Semiannually: March, September Debentures 10½% due November 1996, interest payable May 20 and November 20 10½% due April 1998, interest payable April 28 and October 28 10¼% due December 2001, interest payable June 18 and December 18 Notes 8½% US due November 1991, interest payable November 13 10½% due July 1993, interest payable July 7 Medium term notes, interest payable February 15 and August 15		
Direct dividend deposit	The Corporation offers to its Canadian shareholders a direct dividend deposit service for convenience and security. The dividend payments are transferred electronically to the shareholder's bank account on the date they become due. Shareholders wishing to take advantage of this service should direct their request to Montreal Trust Company, Stock Transfer Department, 1800 McGill College Avenue, Montréal, Québec, Canada H3H 3K9.		
Shareholdings as at December 31, 1988	Common shares	6% Preference shares	7.375% Preference shares Series C
Canada	58.01%	74.55%	100%
U.S.A.	0.73%	0.08%	—
U.K.	41.20%	25.24%	—
Other countries	0.06%	0.13%	—
	100%	100%	100%

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